



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Thursday, October 27, 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 October 27, 2016, at 1:02 p.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

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

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

3. ROLL CALL: STAFF, PUBLIC

Staff present: John Springsteen (CEO/Executive Director AIDEA); Chris Anderson (Commercial Finance Director); Mike Catsi (Business Development & Communications Director); Mark Davis (Chief Infrastructure Development Officer); Jennifer Haldane (Human Resources & Administration Director); Jim Hemsath (Project Development & Asset Management Director (PDAM)); Brenda Applegate (Assistant CFO/Controller); Tom Erickson (Chief Procurement Officer); Leona Hakala (Loan Officer); Matt Narus (PDAM Project Manager); Bill Phelan (Loan Officer); Karsten Rodvik (External Affairs Officer); Jeff San Juan (Infrastructure Finance Development Officer); Lori Stender (PDAM Project Manager); 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: Sadie Arneson (Walsh Sheppard); Alan Bailey (Petroleum News); Alana Berry (Public); Elwood Brehmer (Alaska Journal of Commerce); Marcia Davis (Governor's Office); Mark Gardiner (PFM Group Consulting); Jerry Juday (Department of Law); Sunny Morrison (Accu-Type Depositions); Jan Sieberts (WCM); and Sue Wolfe (Northrim Bank).

Public participating via teleconference: Merrick Peirce (Public Fairbanks).

4. AGENDA APPROVAL

The agenda was approved as presented.

5. PUBLIC COMMENTS

Merrick Peirce, Chief Financial Officer and Board member of the Alaska Gasline Port Authority. Mr. Peirce respectfully requested the Board establish firm start times for AIDEA Board meetings. He said the public has no way of knowing what time the AIDEA meeting will begin under the current structure. Mr. Peirce appreciates the executive assistants' attempts to be accommodating and believes it is the Board's responsibility to provide the public with a firm start time.

Mr. Peirce noted his respect for the Board members and suggested AIDEA strategically realign and no longer have direct involvement with the IEP. He recommended a market evaluation be completed to determine what the exact cost of the delivered energy needs to be for the project to be viable. He believes it is essential to recognize and acknowledge changed circumstances and to adapt accordingly.

Mr. Peirce stated the air pollution problem in Fairbanks/North Pole is making people sick and causing deaths. Air pollution is created by burning dirty, but affordable, fuel sources, such as wood and coal. To solve this problem, it is necessary to convert 3,000 to 5,000 wood burners to a fuel source with no particulate pollution, including electricity, propane, ground source heat pumps, or natural gas.

Mr. Peirce noted the meter price of \$15 MMBTU natural gas plus the amortized cost of conversion, approximately \$6 or \$7, produces the burner tip price of \$21 or \$22 for consumers. This cost is inconsistent with getting adequate conversions. Fuel oil is approximately \$14 to \$15 per MMBTU. Delivered wood is approximately \$12 per MMBTU, and those who cut the wood themselves, consider the wood to be free.

Mr. Peirce believes many people and local elected officials are resolutely dissatisfied with AIDEA regarding the IEP and he sees the public growing increasingly disenfranchised. He said a course correction is necessary and he is willing to work with Board members to implement new ideas.

Mr. Wilken requested Mr. Peirce email his suggestions to him.

6. PRIOR MINUTES - September 22, 2016

The minutes of September 22, 2016, were approved as presented.

7. NEW BUSINESS

7A. Loan Resolution No. L16-10 Spur Development, LLC

Mr. Springsteen noted two corrections in the memorandum. The large balloon payment amount at the bottom of page one should read \$3,634,346. The collateral and value line on page two should read Fresenius Renal Care building instead of Creekside retail building.

Mr. Springsteen stated Resolution No. L16-10 authorizes AIDEA to participate in a loan to Spur Development, LLC, to refinance a 19,951 square-foot medical office building located at 3950 Laurel Street in Anchorage, in the amount of \$3,600,000.

Ms. Anderson noted several guarantor entities on this credit. AIDEA will take a leasehold deed of trust and a recorded first lien. AIDEA will require a UCC filing on the furniture, fixtures, and equipment (FF&E), an assignment of the ground lease, and an assignment of the lease with Alaska Renal Care. The loan-to-value is at 54% and the debt service coverage is at 1.58:1. There are three related loans equaling \$8,274,440, which brings the total loan value to approximately \$12 million. All of the loans are current and have been paid as agreed. There are no known environmental issues.

Ms. Anderson described the strengths of this credit include the 100% lease to a national tenant, strong debt service coverage, recent renovations of \$1 million, and strong guarantors. The potential weakness could be seen as a single purpose building. This is mitigated by good rental opportunities in the UMED District. As of June 30, 2016, AIDEA had 2.69% of its total statewide portfolio in the healthcare industry, and would increase to 3.73%. Within the Anchorage region, AIDEA has 3.28% in the healthcare industry, and would increase to 5.20%. Staff recommends the approval of this credit.

MOTION: Vice-Chair Dick moved to approve Resolution No. L16-10. Motion seconded by Ms. Brown.

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

Mr. Wilken directed the Board's attention to the bottom of page one in the confidential documents, whereby the applicant made a specific request of the Board. Mr. Wilken asked for Board members to return all paperwork to Ms. Anderson.

7B. Resolution No. L16-11 Eklutna 5th Avenue, LLC

Mr. Springsteen noted one correction in the memorandum. The lender should read as Northrim instead of FNBA. Mr. Springsteen stated Resolution No. L16-11 authorizes AIDEA to participate in a loan to Eklutna 5th Avenue Properties, LLC, refinancing the 25,935 square-foot FBI annex office building located at 100 East 5th Avenue in Anchorage, in the amount of \$2,340,000.

Ms. Anderson noted the guarantors are Eklutna, Inc. and Eklutna Development Services, LLC. The borrower will benefit by lowering the annual debt service by approximately \$63,900, stabilizing future debt service, extending repayment terms, and funding tenant improvements, and will support three construction jobs. AIDEA will take a first lien position on the FBI annex building. AIDEA will require an assignment of the rents and a UCC filing on the FF&E. The loan-to-value is at 70% and the debt service coverage is at 1.64:1. There are two related loans

equaling \$2,954,966. The loans are current and have been paid as agreed. There are no known environmental issues.

Ms. Anderson described the strengths of this credit include the strong debt service coverage, a seasoned GSA lease, and strong ownership and management of collateral. The weaknesses could include fixed rental payments. This is mitigated by creating a fixed debt to stabilize the interest costs. As of June 30, 2016, AIDEA had 21.4% of its total statewide portfolio in this industry, and would increase to 21.9%. Within the Anchorage region, AIDEA has 34.2% in this industry, and would increase to 35.1%. Staff recommends the approval of this credit, subject to the GSA lease being subordinated to the lender's deed of trust, and the lender to certify that loan funds were used to refinance existing debts, tenant improvements, and the cost of refinancing.

MOTION: Mr. Wilken moved to approve Resolution No. L16-11. Motion seconded by Deputy Commissioner Parady.

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

Chair Pruhs asked if AIDEA has policies concerning the amount of the portfolio assigned to refinancing endeavors versus new construction projects. Ms. Anderson stated there is no AIDEA policy regarding portfolio allocations. She noted staff has been tracking portfolio diversification since 2010, and specifically, in the last four years, 18.54% of AIDEA's participations have been refinances. The refinancing trend has increased, but is not at a worrisome level. AIDEA's internal cost of doing business for new construction and for refinancing is the same.

Chair Pruhs recommended a future discussion with staff regarding the refinancing trend to ensure there are no underlying liabilities and to understand the percentage of the portfolio that has been and will be used for refinancing. Ms. Anderson agreed and believes refinancing is part of the current market cycle.

Mr. Wilken requested a time specific date be set for a discussion and a decision on refinancing loans in the portfolio.

7C. IEP Update, Quarterly Report to the Legislature

Mr. Springsteen said an excerpt from the October 11, 2016 Quarterly Report to the Legislature is included in board members' packets. The full report is online at www.interiorenergyproject.org. Mr. Therriault and his team were invited to present the IEP update. Mr. Therriault noted the progress and forward movement of the components of the supply chain continues, but the advancement is slower than anticipated. A pending term sheet is out with a potential gas supplier.

Mr. Therriault stated evaluations continue regarding ways to drive down capital and operation costs of a Liquefied Natural Gas (LNG) plant. He noted Resolution No. G16-12 will be addressed later in the agenda and involves securing the pre-feed documentation produced by

Salix to prepare the HB 105 plan for the Board's consideration in the near future. Mr. Therriault stated delivery costs have been driven down with the use of the larger-volume trailer. One trailer has been secured and three more are to be delivered in the next calendar year. Mr. Therriault noted the Alaska Railroad generated headlines for being the first railroad in North America to transport LNG. The trial of the LNG transport was completed this month and a report has not yet been developed. The Federal Railroad Administration was present and evaluated the trial. The Alaska Railroad believes the Federal Railroad Administration was very satisfied with the trial program.

Mr. Therriault reported an agreement has been reached with the Interior Gas Utility (IGU) regarding the proposed large-volume storage in Fairbanks. Access to the storage entails an ultimate combination of the two Interior utilities. The existing smaller storage on the site would be repositioned to North Pole. Productive meetings regarding utility consolidation have occurred recently with IGU. Staff anticipate a contract will be ready for the Board's consideration before the end of the calendar year.

Mr. Therriault explained the distribution capability was not increased this year because of legislative restrictions. HB 105 requires AIDEA approve the entire IEP plan before additional access to financial tools is allowed. Mr. Therriault acknowledged the concerns from residents regarding conversion costs. He stated there is ongoing work with local governments on developing ways to help customers spread their conversion costs. Mayor Kassel of Fairbanks North Star Borough (FBNB) is specifically bullish about utilizing conversion tools, such as on-bill financing and Property Assessed Clean Energy (PACE) financing.

Mr. Therriault said an update was presented to the Borough Assembly on October 6, 2016. He noted the reference to dissatisfaction and angst among some of the elected officials. Progress continues, but is slower than anticipated. He believes the plan is still on track to achieve the goals of the IEP. Mr. Therriault reported the Department of Defense (DOD) has submitted a request for information to potentially supply natural gas to Fort Wainwright. A joint reply with IGU will be provided to the DOD within the next week.

Mr. Wilken requested an update on the Tok contract. Mr. Therriault explained Tok entered into a contract to take a small interruptible supply of LNG out of the existing plant to test equipment. Mr. Wilken stated Glennallen is considering the same efforts as Tok. He believes this is a good indication of the growth of LNG demand once access is established. Mr. Wilken shared a quote from an editorial in the Fairbanks Daily News-Miner that he believes encapsulates, by and large, the feelings of the people of the Interior; "Giving up on the project because of negotiating difficulty and current low heating-fuel prices would be an extremely shortsighted move, akin to not dealing with Alaska's revenue issues if oil prices rebound."

7D. Resolution No. G15-02C Authorizing expenditures [from the Sustainable Energy Transmission and Supply Development (SETS) Fund] to Evaluate Alternatives to the North Slope LNG Concession Agreement

MOTION: Deputy Commissioner Parady moved to approve Resolution No. G15-02C. Motion seconded by Vice-Chair Dick.

Mr. Springsteen stated Resolution No. G15-02C is a request to amend the original resolution and provide the budget for continued evaluation of alternative means to supply energy to Interior Alaska as discussed in the IEP update. The request is to increase the authorization by a total of \$550,000, of which \$275,000 is from the SETS Fund authorization and \$275,000 is from the Economic Development Account authorization.

Mr. Springsteen reported in June 2015, the Board authorized an increase from \$500,000 to \$1 million from the original SETS Fund authorization in Resolution No. G15-02A,;in January 2016, the Board authorized an increase from the original Economic Development Account authorization from \$400,000 to \$700,000 in Resolution No. G15-02B. The summary chart was reviewed. The additional budget would be spent under IEP Phase II.

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

7E. Resolution No. G16-12 Approving an Agreement with Salix, Inc., for use of Preliminary Front End Engineering and Design Materials

MOTION: Mr. Wilken moved to approve Resolution No. G16-12. Motion seconded by Ms. Brown.

Mr. Springsteen stated Resolution No. G16-12 approves the selection of Salix as the preferred respondent to the IEP LNG Request for Proposal (RFP) and authorizes AIDEA to execute a pre-feed materials agreement with Salix, including expending up to \$250,000 from the IEP appropriation for this purpose.

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

7F. Resolution No. G16-11 Authorizing the Filing of Applications with the FTA of the U.S.D.O.T. for federal transportation assistance

MOTION: Deputy Commissioner Parady moved to approve Resolution No. G16-11. Motion seconded by Mr. Kennedy.

Mr. Springsteen stated Resolution No. G16-11 authorizes AIDEA to file applications with the Federal Transportation Administration (FTA) of the US Department of Transportation (USDOT) for federal transportation assistance under federal law. The resolution allows AIDEA to accept funds from the FTA to complete additional upgrades to the Ketchikan Shipyard (Shipyard).

Mr. Hemsath categorized this resolution as one of convenience. Additional unused funds from another FTA and USDOT project have been made available to the Shipyard for continuing upgrade work on the electrical substation and the purchase of equipment for improved production. This resolution authorizes AIDEA to be able to accept those federal funds.

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

7G. Executive Session: Interior Energy Project; BlueCrest; 2017 Legislative Proposals; Mustang Operations Center (MOC1); Administrative Order 281 (AO281)

MOTION: Vice-Chair Dick moved to go into Executive Session to discuss confidential matters related to the Interior Energy Project, BlueCrest, 2017 Legislative Proposals, MOC1, and AO281. Motion seconded by Mr. Wilken.

The Board entered Executive Session at 2:01 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, Brenda Applegate, Mark Davis, Tom Erickson, Jim Hemsath, Gene Therriault, Nick Szymoniak, and guests Marcia Davis, Mark Gardiner, and Jerry Juday.

The Board reconvened its regular meeting at 4:01 p.m. Chair Pruhs stated no formal action was taken during executive session.

8. DIRECTOR COMMENTS

Mr. Springsteen stated staff has not yet received the information needed from the State to finish AIDEA's financial statements. The State has not given an expected timeframe for delivery of that information. Staff will provide draft financial statements to the Board as quickly as possible after receipt of the information, which will provide the basis for the discussion of AIDEA's dividend to the State.

Mr. Springsteen noted AIDEA continues to be asked to do more in the state, to participate earlier in projects, and to engage in activities with different risk profiles and potentially higher returns. He looks forward to continuing the discussions with the Board regarding the potential for programs and associated funds that would meet the requests.

The dashboard, loan, delinquencies-to-outstanding reports, IFD, PDAM project matrices, and project fact sheets are included in the board member's packet. Please contact Ms. Siverson regarding continuing education courses.

The next AIDEA Board meeting is Thursday, December 1, 2016.

9. BOARD COMMENTS

Mr. Kennedy expressed his appreciation to Mr. Springsteen for facilitating the effective and educational BlueCrest tour yesterday. Mr. Kennedy congratulated Chair Pruhs for his recent success in the private sector.

Chair Pruhs expressed his appreciation to staff and members for the good discussions during the meeting.

10. ADJOURNMENT

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



John Springsteen, CEO/Executive Director
Alaska Industrial Development & Export Authority