



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Thursday, June 29, 2017
Juneau and Anchorage, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on June 29, 2017, at 12:30 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 [DCCED]); Elaine Brown (Public Member); Dan Kennedy (Public Member); and Gary Wilken (Public Member).

Members present via teleconference: Jerry Burnett (Deputy Commissioner, Department of Revenue [DOR]).

3. ROLL CALL: STAFF, PUBLIC

AIDEA Staff present: John Springsteen (CEO / Executive Director); Michael Lamb (AEA Executive Director); Chris Anderson (Commercial Finance Director); Brenda Applegate (Chief Financial Officer); Mike Catsi (Business Development & Communications Director); Linda Senn (Human Resources Manager); Jim Hemsath (Project Development & Asset Management [PDAM] Director); Yulia Ellsworth (Controller); Tom Erickson (Chief Procurement Officer); Bill Phelan (Loan Officer); Karsten Rodvik (External Affairs Officer); Gene Therriault (Interior Energy Project [IEP] Team Lead); Sherrie Siverson (Executive Assistant); and Krin Kempainen (Administrative Assistant).

Public present: Bart Armfield (Brooks Range Petroleum Corporation [BRPC]); Dan Britton (Pentex Alaska); Bruce Chambers (Seven C Investments); John Damjanovich and Sue Wolfe (Northrim Bank); Mark Gardiner (PFM Group Consulting); Sydney Hamilton (Accu-Type Depositions); John Hendrix (Governor's Office); Jerry Juday (Department of Law); Bill Lawson (Fairbanks Hospitality); and Gordon Weightman (Callan Associates).

Public present via teleconference: Merrick Pierce (Fairbanks); and Jomo Stewart (Interior Gas Utility [IGU]).

4. AGENDA APPROVAL

John Springsteen requested to table Item 7D. AIDEA Dividend Policy discussion until the August 10, 2017 Board meeting. The agenda was approved as amended.

5. PUBLIC COMMENTS

Merrick Pierce from Fairbanks commented on the two agenda items relating to the Interior Energy Project. He stated the people of Fairbanks are paying close attention to the effort. Mr. Pierce requested AIDEA deal with IGU in good faith. Mr. Pierce recommended Board members review Governor's Administrative Order (AO) 272 as they go into executive session and ask themselves if the two objectives are being accomplished: 1) lowering energy cost for consumers and 2) improving air quality for Interior residents.

Mr. Pierce noted the current cost of fuel sources in Fairbanks and stated the estimated IGU cost for gas plus the amortized cost of conversion will push it over \$20/MMBTU for consumers. This price will not work for consumers. Mr. Pierce requested members consider the real value of Fairbanks Natural Gas (FNG) a Pentex asset. Mr. Pierce does not believe the project should go forward until there is a credible plan whereby the project fixes the PM2.5 air quality problem in Fairbanks by getting homeowners to utilize non-particulate emitting heating sources.

6. PRIOR MINUTES - May 18, 2017

The minutes were approved as presented

7. NEW BUSINESS

7A. Loan Resolution No. L17-02 Seven C Investments, Inc.

Mr. Springsteen stated Resolution No. L17-02 regards a Northrim participation in a refinance loan of \$3,037,500 to Seven C Investments, Inc., for the Liberty Center, a 19,750 square-foot, multi-tenanted retail building in Anchorage. Chris Anderson was invited forward to present. Ms. Anderson noted the guarantors are Bruce and Lisa Chambers. They have an existing AIDEA loan with a balance of \$4,131,750, and a history of two paid-off loans. All loans have paid as agreed. The borrower will benefit by a lower interest rate of 3.98%, reducing annual debt service by \$13,012. The repayment term is 22.5 years. There is no construction or new permanent jobs supported by the refinance.

Ms. Anderson explained Mr. Chambers manages the retail building, and is an experienced real estate broker specializing in the Anchorage commercial real estate market. AIDEA would take a first deed of trust on the collateral and include an assignment of rents and UCC filings on the fixtures. The property is 100% leased with 10 units. The appraisal value is \$4,950,000. The loan-to-value is 68%, which is under the maximum. There are no current existing environmental issues. However, the location is classified as an Alaska Department of Environmental Conservation (ADEC) cleanup complete site with no further action, because part of the site was previously occupied by Tesoro, who remains liable for any future environmental remediation.

Ms. Anderson noted the strengths in this credit include the 100% long-term leased tenants, a high debt service credit of 1.69, strong outside financial support ability and positive lending history with guarantors. The perceived weakness include the substantial real estate equity concentration in the guarantors' net worth. This is mitigated by income-producing properties with good rental histories, and ample liquid reserves to support the debt service.

As of March 30, 2017, 21% of AIDEA's total portfolio was secured by retail type properties and would increase to 21.6%. Participated loans within the Anchorage region would increase from 25% to 26.1%. Staff recommends approval of this credit.

Deputy Commissioner Parady requested additional information regarding AIDEA's strategic mission and the recommendation of this loan, since there are no construction or permanent jobs supported. Mr. Springsteen stated the Board previously ratified the program to include refinancing loans because of its valid purpose and benefits Alaska businesses.

Chair Pruhs invited Mr. Chambers and John Damjanovich to the table and asked them to give an overview of the current private market environment. Mr. Chambers described the market as soft, and he sees a 15% decline over the next couple of years. He noted the Liberty Center property is in an ideal location and has excellent long-term tenants. Mr. Chambers opined the liquidity from low-interest funds is allowing small businesses to survive.

Deputy Commissioner Parady asked Mr. Chambers his thoughts on the declining employment and its implications to Alaska. Mr. Chambers stated there are two major problems that need to be addressed by the state to create jobs. 1) The first is extreme environmentalism in Alaska. There being an environmentalist vs. the extreme environmentalist. He noted Alaska standards far exceed the standards in the Lower 48 and needs to be moderated. An example: In Alaska we need an air permit to drill whereas in the Lower 48 you do not. 2) The state oil leases and other natural resources leases should be regular income. The leases should be restructured as competitive to create the basis of state income and put back out to bid if the leasee does not think production is economical at that time, he is sure another company would find them economical.

Mr. Damjanovich stated the AIDEA program allows customers like Mr. Chambers to decrease their interest rate risk in a softening market during a rising interest rate environment. He added AIDEA's refinancing provides a comfort level to banks while stabilizing the cash flow factor for the borrower.

MOTION: Vice-Chair Dick moved to approve Resolution No. L17-02 Seven C Investments, Inc. Motion seconded by Ms. Brown.

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

7B. Loan Resolution No. L17-03 Fairbanks Hospitality, LLC

Mr. Springsteen stated Loan Resolution No. L17-03 regards the Northrim participation in a refinance loan of \$6,075,000 to Fairbanks Hospitality, LLC, for a 114-room Holiday Inn Express hotel in Fairbanks. Ms. Anderson noted the guarantors are Bill Lawson, Christopher Ashenbrener, Adrian Lawson, Andrew Lawson, and Christine Ashenbrener. The borrower will benefit by a lower interest rate from 6.25% to 3.95%. The repayment term is 25 years. There are 26 existing jobs supported.

Ms. Anderson explained the property is managed by the Hotel Group, which manages all of Mr. Lawson's hotels. AIDEA would take a first deed of trust on improvements, and require a UCC filing on furniture, fixtures, and equipment (FFE). The appraisal value is \$9,000,000. The loan-to-value is 75%. The debt service credit is 1.55. The borrower has no current loans with AIDEA, but has had four previous loans that were paid as agreed. There are no current existing environmental issues.

Ms. Anderson noted the strengths in this credit include professional management, seasoned borrower, financial strength of guarantors, and flagged hotel with a good operating history. There are no weaknesses beyond the typical market risk. As of March 30, 2017, 14.22% of AIDEA's total portfolio was in the tourism industry and would increase to 15.51%. Currently there are no tourism loans within the Interior region. This loan would increase that penetration to 44.64%. Staff recommends approval of this credit.

MOTION: Mr. Wilken moved to approve Resolution No. L17-03 Fairbanks Hospitality, LLC. Motion seconded by Vice-Chair Dick.

Deputy Commissioner Parady noted the 26 jobs supported and requested to know the initial variable rate Northrim is charging for the 10-year term. Sue Wolfe stated the initial rate is 4.75%. The rate is tied to the Federal Home Loan Bank three-year amortizing rate plus a margin of 280 basis points.

Mr. Wilken asked Mr. Lawson to give his views on the Holiday Inn Express hotel on Fort Wainwright. Mr. Lawson expressed disapproval and reported the practice is ongoing across the country with different owners.

Chair Pruhs requested additional information regarding debt liability for multiple owners. Ms. Anderson noted there is a 100% guarantee on all parties. The collateral is project-based.

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

7C. Overview of AIDEA Investments - presentation by Callan Associates, Inc.

Mr. Springsteen invited Brenda Applegate and Gordon Weightman to provide the overview of AIDEA investments. Mr. Weightman expressed appreciation for Callan's 17-year relationship with AIDEA. Ms. Applegate provided members with a copy of the financial statements and a copy of the Callan review of external investment managers. Ms. Applegate reported unrealized gains and losses in the investment portfolio historically have had the largest impact on the annual net income. She noted the impacted line items on the financial statements. AIDEA abides by Governmental Accounting Standards Board (GASB) 31.

As of March 31, 2017, AIDEA's cash and investments totaled approximately \$447 million. Mr. Weightman believes the external investment portfolio of \$379.5 million is sound and is built to meet AIDEA's objectives. He expressed confidence in and provided an overview of both the external bond managers, Alaska Permanent Capital Management and Barrow, Hanley, Mewhinney & Strauss. The manager fees are 13 basis points and 23 basis points, respectively. Both managers are consistent with AIDEA's investment policy statement.

The biggest risk in the bond portfolio is interest rate risk or duration. The bond managers are trying to mitigate the duration risk during the rising interest rate environment by utilizing sector rotation and security selection. The portfolio is high quality with a minimum of rating -AA. The constraints around duration are plus or minus 25% of duration of the Bloomberg Barclays Aggregate Index. No levered securities can be held in the portfolio.

Mr. Weightman stated the current environment remains low yielding and is close to the bottom of the interest rate cycle. The yield curve is flattening, with the 10-year treasury at 2.22% and the 30-year treasury at 2.9%. Mr. Weightman showed examples of how timing of rising interest rates affects portfolios. He noted bond spreads are tight. The AIDEA portfolio has exceeded its 3.56% benchmark, returning 3.83% over 10 years. The returns over the one, three, and five years have been closer to the benchmark because of the difficulty in the low interest rate environment.

Mr. Weightman indicated the recent increase in interest rates caused the portfolio to return a negative 1.7% through March 31, 2017, with unrealized losses at \$13 million. However, as of June 28, 2017, the index is up 1.8%, which could assist in the portfolio breaking even at the fiscal year-end for the mark-to-market.

Chair Pruhs requested additional information regarding AIDEA's investment policy and believes it should be revisited every two to four years. Ms. Applegate reported the investment policy was revised in October 2013. Mr. Weightman stated he assisted in those revisions and the policy remains sound for the time horizon of five to 10 years. He would have to conduct further research to determine if the Board believes the investment policy is too risk adverse or if there are additional funds beyond the cash reserves needed to efficiently operate that could be utilized. AIDEA has a fiduciary responsibility to follow the prudent investor rule while managing the assets.

Deputy Commissioner Parady inquired if the risk adverse nature of the investment policy statement should be reconsidered. Mr. Springsteen believes the prudent investor rule allows for diversification and a broader portfolio of assets. He noted staff will revisit the investment policy and report back to the Board.

Mr. Kennedy expressed appreciation for the presentation.

Mr. Wilken expressed appreciation to Callan for attending the meeting and requested their attendance once a year. He extended his well-wishes to retired Callan representative Michael O'Leary.

7D. AIDEA Dividend Policy – discussion

Tabled until the August 10, 2017 Board meeting.

7E. IEP Update

Mr. Springsteen requested Gene Therriault and team members come to the table to present the IEP update. Mr. Therriault stated the House Bill (HB) 105 required quarterly report will be submitted to the Legislature next week and will follow the same format as the update. At the direction of the Board, Dan Britton was tasked to look for a gas supply; Mr. Britton is actively engaged with Cook Inlet producers to secure a gas supply. Additionally, long-term gas supply prospects are being evaluated by the two utilities that will serve the combined enterprise.

The pre-front end engineering and design (pre-FEED) documents for the potential expansion of the liquefied natural gas (LNG) plant have been purchased. The transportation status remains the same. Mr. Therriault noted that agenda item 7I will be a request to access capital dollars for the time-sensitive construction work and FEED documents of the large storage facility in south Fairbanks. The statutory storage credit legislation is proposed to be back on the docket during session.

Mr. Therriault stated utility consolidation negotiations continue to make progress in finalizing the financial agreement, and the purchase and sales agreement. No appreciable expansion of distribution has occurred. However, Mr. Britton is working with Fairbanks' city crews and Department of Transportation (DOT) to look for opportunities to expand limited lengths of pipe when street work is being completed. Mr. Therriault noted the Property Assessed Clean Energy (PACE) legislation passed this year and can potentially be used by the local governments for natural gas conversions.

7F. Executive Session: Interior Energy Project, MOC1

MOTION: Vice-Chair Dick moved to go into Executive Session to discuss confidential and financial information related to the Interior Energy Project and MOC1. Motion seconded by Deputy Commissioner Parady.

The Board entered Executive session at 1:51 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, Gene Therriault, and guests, Dan Britton, Mark Gardiner, John Hendrix, and Jerry Juday.

Deputy Commissioner Parady departed the meeting at 4:00 p.m.

The Board reconvened its regular meeting at 4:14 p.m. Chair Pruhs stated no formal action was taken on the matters discussed in executive session.

7G. Resolution No. G17-08 Mustang Operations Center (MOC1)

Chair Pruhs invited Mark Gardiner to the table. Mr. Gardiner noted Board members have been provided a memo containing the revised finance plan and recommendations of approval to authorize the Executive Director to enter into an additional \$2.5 million investment in MOC1, LLC, to work with the other relevant state agencies and industry to further the Mustang project, and to seek long-term financing for the project.

Mr. Springsteen stated Resolution No. G17-08 Mustang Operations Center authorizes AIDEA to acquire 100% of the membership interest in MOC1, providing an additional \$2.5 million for financing, and authorizes AIDEA to consult with Department of Natural Resources (DNR), ADEC, and other state and local government officials with respect to the acquisition.

MOTION: Mr. Kennedy moved to approve Resolution No. G17-08 Mustang Operations Center (MOC1). Motion seconded by Deputy Commissioner Burnett.

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

7H. Resolution No. G17-07, FY 2018 Budget for Pentex Alaska Natural Gas Company, LLC, and Interim Rates for Fairbanks Natural Gas, LLC

Mr. Springsteen stated Resolution No. G17-07, FY 2018 Budget for Pentex Alaska Natural Gas Company, LLC, and Interim Rates for Fairbanks Natural Gas, LLC authorizes FNG to establish the FY 2018 Pentex budget and rates. Mr. Springsteen invited Mr. Britton to the table to present an overview and answer questions.

Mr. Britton discussed the highlights of the FY 18 proposed budget. The current cost of fuel oil has a potential negative impact on the volume of sales from FNG to its consumers. The same historical heating degree-days as budgeted in FY 17 were used in the proposed FY 18 budget. The EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) is roughly \$2 million, with a net loss of \$420,000 primarily contributed to depreciation of a Pentex value adjustment.

Mr. Britton reviewed the recommended increase to customer fixed monthly charges for the firm residential rate classes from \$9.20 to \$12.00, adding approximately \$33 annually to the bill. FNG has not changed the fixed charges for over 10 years. Enstar's fixed residential charges is \$17.00 per month. Mr. Britton reviewed the recommended 3% volumetric increase to firm customers and noted it will add approximately \$82 annually to the average residential customer's bill. The total impact of the rate changes for an average residential consumer is approximately \$116 annually. Customers will be provided an approximate 30-day notice of the rate increases, effective August 1, 2017.

Mr. Britton reminded members of the immediate 13% reduction to residential rates when AIDEA purchased Pentex. The recommended rate increases change the 13% reduction to a 10% reduction to previous rates. However, the savings to customers is greater than the 10% because the raw cost of gas has increased each fiscal year by 4%, as well as increases in labor and electricity costs. Mr. Britton reported the proposed budget does not compromise maintenance activities in any way and continues a high level of reliability that follows manufacturers' suggested rebuild timeframes.

MOTION: Mr. Wilken moved to approve Resolution No. G17-07, FY 2018 Budget for Pentex Alaska Natural Gas Company, LLC, and Interim Rates for Fairbanks Natural Gas, LLC. Motion seconded by Ms. Brown.

Chair Pruhs said Enstar increased rates 8% this year in Southcentral Alaska.

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

7I. Resolution No. G17-09 Authorizing Front End Engineering and Design Work for LNG Storage Facility in Fairbanks

MOTION: Mr. Wilken moved to approve Resolution No. G17-09 Authorizing Front End Engineering and Design Work for LNG Storage Facility in Fairbanks. Motion seconded by Vice-Chair Dick.

Mr. Springsteen stated Resolution No. G17-09 authorizes FNG and Cassini to proceed with FEED work for a proposed Fairbanks LNG storage facility. Mr. Springsteen invited Mr. Britton to continue the discussion. Mr. Britton noted a large storage project in Fairbanks is critically important to the IEP, providing security of supply and increased utilization of the liquefaction facility. The storage facility would allow for approximately 400,000 Mcf additional firm sales annually.

Mr. Springsteen stated the expenditure of \$1.5 million needs to be added to the resolution on page two under Section 2. FNG and Cassini are authorized to expend up to \$1.5 million for the FEED work on the Fairbanks LNG storage facility. Mr. Wilken and Vice-Chair Dick acknowledged the amount to be included is \$1.5 million expenditure without objection.

Mr. Britton stated the \$1.5 million FEED work budget was emailed to members today in the afternoon. He apologized for the late delivery. Mr. Britton answered questions regarding specific line items in the budget.

Deputy Commissioner Burnett noted the resolution does not include the size and capacity of the storage facility. He requested a friendly amendment for this information be included for the record. Mr. Britton stated the storage capacity is 5,250,000 useable gallons of LNG storage. The maker of the motion and second accepted to include the storage capacity as a friendly amendment without objection.

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

Chair Pruhs requested adding Item 7J. Resolution No. G17-10 relating to gas supply costs incurred by the Interior Gas Utility. There was no objection to the agenda addition.

7J. Resolution No. G17-10 Related Gas Supply Costs Incurred by the Interior Gas Utility

MOTION: Mr. Wilken moved to approve Resolution No. G17-10 Relating to gas supply cost incurred by the Interior Gas Utility. Motion seconded by Vice-Chair Dick.

Mr. Springsteen read Resolution No. G17-10 Relating to gas supply cost incurred by the Interior Gas Utility into the record.

Mr. Wilken suggested the friendly amendment of a deadline date, selected by the Executive Director, for the submittal of reimbursement requests be included under Section 1. There was no objection to the friendly amendment.

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

8. DIRECTOR COMMENTS

Mr. Springsteen stated the dashboard, loan, delinquencies-to-outstanding reports, IFD, PDAM project matrices were included in the board packet. Please contact Ms. Siverson regarding the continuing education calendar.

The next regularly scheduled board meeting will be Thursday, August 10, 2017.

9. BOARD COMMENTS

Mr. Kennedy noted the Audit Committee is scheduled to meet in November. The specific date is forthcoming to accommodate Deputy Commissioner Parady's schedule. He is pleased with the federal government and current Administration's efforts to reduce unreasonable regulations. He believes this will help AIDEA's mission in decades to come.

Mr. Kennedy expressed appreciation to Mr. Springsteen, Ms. Anderson, and staff for attending the Greater Wasilla Chamber of Commerce AIDEA presentation.

Chair Pruhs expressed appreciation to all participants for today's efforts. He welcomed Ms. Linda Senn AIDEA's new Human Resources Manager.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 4:47 p.m.



John Springsteen, CEO / Executive Director
Secretary-Treasurer