



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Thursday, September 21, 2017
Anchorage and Juneau, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on September 21, 2017, at 10:04 a.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present: Chair Dana Pruhs (Public Member); Vice-Chair Russell Dick (Public Member); Jerry Burnett (Deputy Commissioner, Department of Revenue [DOR]); Elaine Brown (Public Member); Dan Kennedy (Public Member); and Gary Wilken (Public Member).

Member present via videoconference: Fred Parady (Deputy Commissioner, Department of Commerce, Community, and Economic Development [DCCED]).

3. ROLL CALL: STAFF, PUBLIC

AIDEA Staff present: John Springsteen (CEO/Executive Director); Chris Anderson (Commercial Finance Director); Brenda Applegate (Chief Financial Officer); Mark Davis (Chief Infrastructure Development Officer); Jim Hemsath (Project Development & Asset Management [PDAM] Director); Tom Erickson (Chief Procurement Officer); Bill Phelan (Loan Officer); Karsten Rodvik (External Affairs Officer); Linda Senn (Human Resources Manager); Lori Stender (PDAM Project Manager); Gene Therriault (Interior Energy Project [IEP] Team Lead); Sherrie Siverson (AIDEA Executive Assistant); Teri Webster (AEA Executive Assistant); Krin Kempainen (Administrative Assistant); and Aimee Sudbeck (Administrative Assistant).

Public present: Alan Bailey (Petroleum News); Mark Gardiner (PFM Group Consulting); Sydney Hamilton (Accu-Type Depositions); Jerry Juday (Department of Law); Danner Pruhs (public); and Sue Wolfe (Northrim Bank).

Public present via teleconference: Kevin Baird (Fairbanks Daily News-Miner); Dan Bross (KUAC Radio); Pam Doherty (CIRI); Patrice Lee (public); Rebecca Logan (Alaska Support Industry Alliance); David Prusak and Jomo Stewart (Interior Gas Utility [IGU]); and Jeff Stepp (Fairbanks North Star Borough [FNSB]).

4. AGENDA APPROVAL

The agenda was approved as presented.

5. PUBLIC COMMENTS

Jomo Stewart expressed appreciation and support regarding Resolution No. G17-13. He noted IGU reviewed the draft documents, but did not review the active documents before today's meeting. Mr. Stewart noted some small differences between the information presented and the IGU modeling. He wanted to ensure refinements to the estimates and flexibility will still be possible after the AIDEA Board action today.

Mr. Stewart expressed appreciation and support for Resolution No. G17-14 regarding IGU expenses and looks forward to the conversation determining the specific dollar amount. He stated IGU has conducted utility integration planning and is eager to further the effort.

6. PRIOR MINUTES - August 10, 2017

Mr. Wilken asked to amend the minutes of August 10, 2017, Item 2. Roll Call, to include a sentence stating Member Wilken was excused for medical reasons. The minutes were approved as amended.

7. NEW BUSINESS

7A. Loan Resolution No. L17-04 EHESE Investments, LLC

John Springsteen stated Loan Resolution No. L17-04 regards a \$5,433,750 participation in a long-term financing loan to EHESE Investment, LLC, for the purchase of an existing office/warehouse project located at 3300-3400 Arctic Boulevard in Anchorage.

Chris Anderson stated AIDEA's term of the loan is 22.5 years at a fixed rate, and Northrim's participation is 10 years at a three-year variable rate. The guarantors are Universal Financing Corporation (UCF), Brian Choi, Young Hae Choi, and their adult children, Serin Choi, Herin Choi, and Erin Pilynak. The borrower will benefit by having a fixed-loan payment amount. Four permanent jobs will be supported.

Ms. Anderson stated AIDEA would take a First Deed of Trust on the property, including an assignment of rents and a UCC filing on the fixtures. The property appraisal came in at a 75% loan-to-value and a 1.67 debt service coverage. There is a related debt commitment of \$2,193,750 to UFC. There are no current environmental issues noted. The strengths include the 1.67 debt service coverage, well-established tenants, and strong outside financial support. The perceived weaknesses include the designed minimal financial liquidity of UFC and EHESE, and the nominal wealth of Brian and Young Choi's adult children.

Ms. Anderson stated 9.5% of the total statewide portfolio is secured by office/warehouse and would increase to 10.9%. Participated loans in the Anchorage region is at 15.4% and would increase to 18%. Staff recommends the credit for approval.

Deputy Commissioner Burnett requested more information on the tenants of the building. Ms. Anderson stated there are about 20 tenants and include Alaska Premier Health, Board of Realtors, Arctic Care Services, Borealis Massage Therapy, Alaska Public Association, Disability Law, Konica Minolta, and Arctic Gymnastics.

Chair Pruhs requested an update on the commercial real estate market. Ms. Anderson stated the commercial market continues to be fairly stable and believes leases are reasonable for tenants. Office/warehouse vacancy rates are 4% to 6%. Ms. Anderson noted the State's financial situation has not shown any effects to the commercial market yet. She believes market deterioration may occur if the State's financial situation continues on a long-term basis.

Deputy Commissioner Parady requested clarification on the strong outside financial support. Ms. Anderson explained the strong outside financial support is referring to the financial strength of the guarantors. Deputy Commissioner Parady inquired about the legitimacy of the current business tenants and possible connections to human trafficking. Ms. Anderson believes all the tenant businesses are legitimate.

MOTION: Vice-Chair Dick moved to approve Resolution No. L17-04 EHESE Investments, LLC. Motion seconded by Mr. Kennedy.

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

7B. Resolution No. G17-15 Facility Capital Projects

Mr. Springsteen stated Resolution No. G17-15 regards facility capital projects for AIDEA's office building at 813 West Northern Lights Boulevard in Anchorage. Items covered in this request are outside general operating and maintenance expenses and are capital in nature, including replacing compromised or leaking windows, repairing foundation leaks, and repairing the boiler system. The amount requested annually is \$250,000. Any unused amount would expire at the end of the fiscal year. Staff will provide updates and an annual report to the Board identifying work completed and expenditures. Tom Erickson answered questions regarding specific planned projects, which would be covered under the resolution.

Mr. Wilken suggested a possible amendment to Section 3., establishing a reserve fund in which any unused amount from the annual \$250,000 authorized funds could roll into after the end of fiscal year. He believes this would change the mentality from a use-it-or-lose-it perspective to a use-it-or-save-it money management strategy. Mr. Springsteen agreed with the amendment suggestion.

Brenda Applegate stated the resolution approves up to a \$250,000 spending authorization amount annually from the revolving fund for the additional work that is outside of the annual facility-operating budget. All funds not spent remain in the revolving fund. Ms. Applegate explained each expenditure is reported in the year it is incurred.

Mark Davis suggested the Board could choose to remove the time expiration of the resolution and the unused authorized amount remaining at the end of the year would add onto the next year's authorized amount. The example given was if \$50,000 of the authorized amount was not utilized at the end of the year, the next year's authorized amount would increase from \$250,000 to \$300,000. Mr. Wilken expressed support for the amendment. Deputy Commissioner Burnett expressed support for the amendment.

MOTION: Mr. Wilken moved to approve Resolution No. G17-15 Facility Capital Projects including the amendment to remove the expiration date, increase the authorization each year by the previous year's unspent amount, and provide annual reporting. Motion seconded by Mr. Kennedy.

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

7C. 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 Ms. Brown.

The Board entered Executive session at 10:45 a.m. Participants included board members Dana Pruhs, Russell Dick, Elaine Brown, Jerry Burnett, Dan Kennedy, Fred Parady (via video conference), and Gary Wilken. AIDEA staff invited to join the session, at different times, for related topics: John Springsteen, Brenda Applegate, Gene Therriault, and guests, Kathy Black (via teleconference), Mark Gardiner, and Jerry Juday.

The Board reconvened its regular meeting at 11:52 a.m. Chair Pruhs stated no formal action was taken on the matters discussed in executive session.

7D. IEP Update

Mr. Springsteen requested Gene Therriault present the IEP Update. Mr. Therriault stated the gas supply contract has been obtained and is attached as part of the proposed House Bill (HB) 105 plan. The term is three years, beginning April 1, 2018. There is an adequate supply of gas to fuel the project and the expected expansion to the Interior. The contract offers volume flexibility without take-or-pay risk to customers. There is no price escalator for the three-year term and the price differential for peak gas has been removed for the three-year contract.

The large capacity trailers are being integrated into the Fairbanks Natural Gas (FNG) transportation system. The request for proposal (RFP) for the storage in Fairbanks has been released. The bid close date is at the end of October. There is no additional build-out of the distribution system at this time. The next quarterly report is due to the Legislature by October 10, 2017.

Deputy Commissioner Burnett inquired as to the completion date of the expanded plant and storage facility. Mr. Therriault stated the projected completion date for the storage facility is the end of 2019, and the projected completion date for the expanded plant is shortly thereafter.

Mr. Wilken requested additional information regarding the drastic decrease in the cost of Liquefied Natural Gas (LNG) production at the Titan Plant from \$4.28 in 2018, to \$1.89 in 2027. Mr. Therriault explained as the LNG volume increases, the existing fixed costs for the infrastructure decreases. The potential volume demand growth in Fairbanks is based on a 50% conversion rate going forward. Mr. Wilken directed the Board's attention to the line showing the distribution, storage, and vaporization cost and commented on the importance of the beginning

cost of \$4.76, which decreases to .86 cents in 2027. Mr. Therriault provided additional explanation of the slope of the planned average customer rates line item and the equivalent fuel oil price line item. He noted the target savings goal would be achieved in 2022.

7E. Resolution No. G17-13 Approving an HB105-Compliant Project Plan for the Interior Energy Project

Mr. Springsteen stated Resolution No. G17-13 approves the HB105-Compliant Project Plan discussed in the IEP update. Mr. Therriault noted the memo includes the specific HB105 language stating the requirements of the plan. The memo and four attachments fulfill these requirements.

MOTION: Mr. Wilken moved to approve Resolution No. G17-13 Approving an HB105-Compliant Project Plan for the Interior Energy Project. Motion seconded by Ms. Brown.

Mr. Wilken expressed appreciation to the AIDEA Board members for what he believes will be unanimous support of the resolution. He recognized the Board's persistence through challenging decisions since July 2013, in bringing low-cost clean-energy gas to Interior Alaska for generations to come. Mr. Wilken expressed additional appreciation to the Legislature for their vision, support, and generosity in responding in 2013 to the energy crisis in Fairbanks and North Pole by authorizing \$437 million to bring natural gas to the area and for the Legislature's renewed support, faith and patience in 2015, through HB105.

Mr. Wilken recognized the stellar team of AIDEA employees and valued consultants for their best efforts toward this project. Mr. Wilken expressed appreciation to the Fairbanks and North Pole elected leaders, specifically Mayor Kassel, Mayor Hopkins, Mayor Matherly, and Mayor Ward for their patience and support. Mr. Wilken expressed appreciation to the people of Fairbanks and North Pole.

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

Chair Pruhs stated the passing of Resolution No. G17-13 transforms the theory of an Interior Energy Project to the reality of an Interior Energy Project.

7F. Resolution No. G17-14 Approving an Amendment to Loan Agreement with the Interior Gas Utility

Mr. Springsteen stated Resolution No. G17-14 approves the amendment to the Loan Agreement with IGU to permit loan proceeds to be used for costs IGU incurred while working on the physical and business integration of IGU and FNG. Mr. Therriault reviewed the amended amounts and modified scope, as previously discussed by the Board. IGU has supplied a budget of expenditures through the end of 2017, including integration costs and RCA filing costs.

MOTION: Mr. Wilken moved to approve Resolution No. G17-14, including the amendment to Section 1. as follow: "The Authority is authorized and directed to modify the existing SETS loan to IGU so as to permit loan proceeds to be used for costs IGU

incurred in working on the physical and business integration of IGU and FNG." Motion to approve amended Resolution No. G17-14 seconded by Deputy Commissioner Burnett.

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

8. DIRECTOR COMMENTS

Mr. Springsteen stated the dashboard, loan, delinquencies-to-outstanding reports, IFD and PDAM project matrices, and the Callan Quarterly Investment Report were included in the Board packet. Please contact Ms. Siverson regarding the continuing education calendar. The next regularly scheduled board meeting will be on Thursday, October 26, 2017.

9. BOARD COMMENTS

Mr. Wilken requested the anticipated funding sheet and pending application sheet add two columns: the first column to provide a brief one or two-word description of the project and the second column to state where in Alaska the project is located. Mr. Wilken highlighted the good news regarding no delinquencies in 2016 and 2017.

Mr. Kennedy expressed appreciation to Mr. Springsteen for his outstanding public outreach and presentation on future infrastructure in Alaska. Mr. Kennedy was asked to speak to the Anchorage Rotary Club next month regarding AIDEA and may utilize information from Mr. Springsteen's presentation. He reported the Audit Committee will meet in early November, date to be determined, to receive and review the draft audited financial statements. The audited financial statements will come before the Board at the December meeting. Mr. Kennedy expressed appreciation for the provided 2018 schedule. He extended an open invitation for the Board to conduct a meeting at the Mat-Su Borough Assembly room in Palmer.

Ms. Brown expressed gratitude and congratulations for the diligence regarding IEP and HB105.

Vice-Chair Dick thanked staff and especially Chair Pruhs for efforts and leadership.

Chair Pruhs expressed appreciation to staff and all participants.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 12:24 p.m.



John Springsteen, CEO / Executive Director
~~Secretary-Treasurer~~