Alaska Industrial Development and Export Authority

ALASKA ENERGY AUTHORITY

**MINUTES**
Alaska Industrial Development and Export Authority
Board of Directors
Thursday, October 7, 2008 at 9:00am
Anchorage, Alaska

1. CALL TO ORDER

Chairman John Kelsey called the meeting of the Alaska Industrial Development and Export Authority to order on August 29, 2008 at 9:00 a.m.

A moment of silence was observed in memory of Brian Andrews. A resolution will be done commending Deputy Commissioner Andrews for his service on the Board. AIDEA will also dedicate their 2008 Annual Report in memory of Brian Andrews.

2. BOARD OF DIRECTORS ROLL CALL

A quorum was established. Members present in Anchorage: Chairman John Kelsey (Public Member); Commissioner Patrick Galvin (Department of Revenue); Commissioner Emil Notti (Department of Commerce, Community & Economic Development); and Commissioner Leo von Scheben (Department of Transportation & Public Facilities).

Participating via teleconference: Vice-Chair John Winther (Public Member).

3. PUBLIC ROLL CALL

Staff present in Anchorage: Ted Leonard (AIDEA Executive Director); James Hemsath (Deputy Director-Development); Valorie Walker (Deputy Director-Finance); Bruce Chertkow (Loan Officer); Leona Hakala (Loan Officer); Karl Reiche (Projects Development Manager); Mark Schimscheimer (Project Manager); Brenda Fuglestad (Administrative Manager); and Sherrie M. Siverson (Administrative Assistant).

Others Present: Brian Bjorkquist (Department of Law); Paul D. Kendall (Public). Mike Mitchell (Department of Law) arrived at 9:29 a.m. Michael J. Mohn (Kennedy & Mohn) arrived at 10:00am. Dick LaFever and Terry Stimson (CLI) arrived at 10:13am.
Other present via teleconference: Chris Anderson (Deputy Director-Credit).

A revised agenda was distributed to Board Members where Public Comments were put after Public Roll Call. Mr. Leonard requested the Executive Session be moved to before Board Comments. Commissioner Galvin moved to approve the revised agenda and there were no objections. Motion carried.

PUBLIC COMMENTS

Chairman Kelsey asked public speakers to keep their comments to three minutes.

Mr. Paul D. Kendall distributed a handout to Board Members. He stated he is focused on energy in Alaska's new future. He has been mailing out "Paul Kendall's plan on energy" and stated he is concerned about multiple sectors. In his opinion, he believes that all problems are leadership-based. If you do not have a stable society and you don't have the currency, you cannot demand the energy price. You have forgotten the fundamentals of all society, which are individual freedom and food and shelter. He hopes the focus will be on those fundamentals and population control. The fundamental missing piece of Alaska is that there is no energy infrastructure. The pipeline is two-thirds empty; there is no hydroelectric; there is a predominant fossil fuel mentality, but no state-of-the art technology has been brought to the table and that is the cornerstone that Alaska has missed and that's the piece that puts it all together. He is concerned that he has not seen a bold new direction or directives or public innovation regarding the Energy Plan. He is concerned about the Permanent Fund investments being made and feels the capital should be put somewhere appropriate. He also believes that all energy related meetings should be advertised in the newspaper.

4. PRIOR MINUTES – June 12, July 16, August 29, 2008

The minutes from June 12, July 16, and August 29, 2008 were approved as presented.

5. OLD BUSINESS

There was no old business.

6. NEW BUSINESS

**6A. Resolution No. G08-09, Eagle Industrial Minerals Corp., Kasaan Magnetite Project**

Mr. Hemsath reviewed Resolution No. G08-09 stating it is for a reimbursement agreement for a Kasaan Magnetite Project. He stated that the Kasaan Magnetite Project is located on the Prince-of-Wales Island. Eagle Industrial Minerals Corp (Eagle) made contact with AIDEA for the possibility of funding and owning a shiploader for an iron quarry project. The iron quarry project on Prince-of-Wales Island is to mine magnetite and do minimal processing to produce a low-grade iron ore in the 49-50% range. This keeps the capital cost down and the product will be shipped to producers that would further refine the ore and sell the product. Eagle has supplied AIDEA with a number of letters of support from the local community, letters of intent from possible buyers, purchasers of the iron ore, as well as preliminary plans, estimates, and indications on work they have done with the Department of Environmental Conservation (DEC) on environmental permitting. Eagle is using the quarry to minimize some of the environmental aspects that will make it a relatively quick project to put in place. They expect to be online by early spring or summer of 2009 employing 45 people. Resolution No G08-09 is for approval of due diligence and feasibility analysis to look at the engineering design of the floating barge loader, the pier mechanism, the pier, and the conveyor belt. We expect that that cost will not exceed $85,000.

The road to Kasaan is located on Prince-of-Wales Island. Adams' Point is the location of the Poorman Deposit, the first deposit that Eagle expects to open in terms of their quarry. The shiploader project is a combination of a conveyor system, a barge, a rail arm loader, and a pier for the barge for loading of Panamax-size ships. The iron ore would be quarried and fed into a theater and separation conveyor to the rail arm loader that is located on the barge and then onto the ship. The advantage of the floating barge and rail arm loader is minimal cost in terms of infrastructure, a relatively short period of loading, and accommodating tides.

This $8.5-$10 million dollar investment will generate approximately 45 jobs. Resolution No G08-09, not to exceed $85,000, is for engineering feasibility and a review of the business plan, as well as developing the commercial terms for payback.

Mr. Hemsath said subject to a reimbursement agreement, staff anticipates that the $85,000 will roll into the total cost of the package and then be financed accordingly. If the project is not viable, the cost reimbursement agreement clearly outlines that Eagle owes AIDEA $85,000 payable on demand. It is currently anticipated that AIDEA would own the conveyor system, barge, loader, and technically the pier as well.

Staff expects the feasibility analysis to take four weeks and staff is looking to bring a recommendation back before the board at the December meeting for approval of the project. The longest lead-time Eagle anticipates is the steel pipe for construction of the pier columns. Eagle has had preliminary discussions with the DEC; however, they have not achieved any permits.

The quarry would be part of the work this spring. One aspect of the due diligence and the feasibility is to put reality to the schedules they are proposing and see if they feasible and see what that does to the economics.

Mr. Mark Schimscheimer stated Eagle does not have permits in place at this time. They have been talking with DEC and hope to have permits on that mine or quarry by December. This is not a mining operation; it is not processing ore, and there are no reductions or smelters. It is coring ore, an iron separation, magnetic physical separation on it and putting it in a ship for transport. Part of the entire scheme of this quarry is to make it as permittable as possible, so to speak and so we have some letters and representations from environmental consultants that say this is in fact the most doable permittable operation that you are going to get at this location. Eagle does not have permits in place at this time.

Mr. Hemsath said Eagle has received a letter of support from Kavilco.

Mr. Schimscheimer said staff is before the Board today to request authorization to spend funds to do the feasibility analysis.

Commissioner Galvin stated that as part of the feasibility study, staff should have sensitivity to the schedule given, how aggressive it is, and make sure that they have a contingency plan in case there are delays. Staff should also look at the barge and equipment to ensure that it could possibly be used in another location in case this project fails.

Mr. Hemsath said the barge really is nothing more than a floating dock. A radial arm loader to move ore onto the ship will be attached to the barge and that becomes the loading arm for the cargo ships.

Mr. Bjorkquist stated this is a development finance program project as it is being proposed. Under AIDEA's Statutes, AIDEA has to do this feasibility study. That is one of the requirements under the statute and the historical norm has been for AIDEA to front the money for these feasibility studies with a cost reimbursement agreement.

**MOTION: Commissioner Galvin moved to approve Resolution No. G08-09. Seconded by Commissioner von Scheben. There being no discussion, the question was called. A roll call vote was taken and the motion passed**

**AYES: Galvin, Notti, von Scheben, Winther, Kelsey**
**NAYS: None.**

**6B. Resolution No. G08-10, Skagway Ore Terminal, User Agreement - Redcorp Ventures Ltd./Redfern Resources Ltd.**

Mr. Hemsath reviewed Resolution No. G08-10 stating it is for a cost reimbursement agreement for a feasibility analysis. He gave a brief history of the Skagway Ore Terminal. The Redfern Corporation is proposing that 15,000 square feet of this slab be covered for their use for moving copper ore concentrate from the Tulsequah project in BC. That project envisions shipping ore up to Skagway to be off-loaded and then stored in the shed for larger commercial container ships for movement of ore to market. Staff is recommending that we expend up to $140,000 dollars for feasibility on the study to examine both the Tulsequah Mine, its prospects, its life, and the cost of moving ore to market. They have some unique aspects such as using hovercraft barges to move things to shore, as well as the feasibility study to expand the shed. Staff expects this work to take approximately four to six weeks anticipating that if the feasibility analysis does in fact prove to be viable, that we will come to the Board at the December meeting for approval for funding for expansion of the ore storage facility.

Mr. Reiche stated they still have permitting challenges with respect to the use of the Taku River for transport, and they still have to work through some land-use agreements. It seems to be the nature of these mines that they want us to be ready to receive their ore about the same time they are ready to open their mine. Hopefully our due diligence effort will help us evaluate the risk of proceeding with construction of a concentrate-storage building while they are still working through their permitting problems.

**MOTION: Commissioner Galvin moved to approve Resolution No. G08-10. Seconded by Commissioner Notti. There being no discussion, the question was called. A roll call vote was taken and the motion passed unanimously.**

**AYES: Galvin, Notti, von Scheben, Winther, Kelsey**
**NAYS: None.**

**6C. Resolution No. G08-11, Skagway Ore Terminal Expansion – Minto/Sherwood**

Mr. Hemsath reviewed Resolution No. G08-11 stating Western Financial Group conducted a feasibility analysis and due diligence study of Sherwood's request to expand the storage building. The due diligence was examining the capability of the mine to produce ore for the extended time frame that Sherwood has requested. Western Financial has concluded that this is a viable project. The economics of the product are appropriate for this expansion and staff requests permission to proceed with the expansion and enter into negotiations for the User Agreement.

Sherwood has done additional drilling and they are now stating that the ore deposit is bigger than originally anticipated. With that, they would like to move more ore out which is driving their request to take on additional responsibility for shipping.

Mr. Reiche stated their current estimated life of mine is calculated based on drilling at their main ore deposit and their area two deposit. Without going into details, after they have a certain number of core samples in an area, they can call them reserves and then they can go to a bank and borrow additional money against those reserves to expand their operation. Based on their current mining reserves, they have an operation that is a going concern into 2016, but they hope to keep expanding their operation and extending their life of mine beyond 2016.

Commissioner Galvin stated it is important that we hear from the City of Skagway as to the economic development opportunities that the port development provides for them. AIDEA's objective is not the development of Canadian mines so much as the economic development that it provides for Alaska. We are seeing a relationship between the strategic location of Skagway as it relates to the development of Canadian mines, but the main purpose is the development of the Skagway Ore Terminal.

Mr. Hemsath stated that Skagway is marketing themselves as "Yukon's Gateway" in terms of more exportation. They are extracting value from that through jobs and taxes.

Discussions ensued regarding amortization and cash flows.

**MOTION: Commissioner Notti moved to approve Resolution No. G08-11. Seconded by Commissioner von Scheben. There being no discussion, the question was called. A roll call vote was taken and the motion passed unanimously.**

**AYES: Galvin, Notti, von Scheben, Winther, Kelsey**
**NAYS: None.**

**6E. Investment Update, Michael O'Leary, Callan Associates**

Mr. O'Leary referred the board to their handout as he reviewed the salient points of his presentation. This was an eventful quarter with stress in pillars of the financial community suffering the consequences that few if any expected. The bottom line is that the AIDEA portfolio made it through this period in extraordinarily good shape.

We're still in a situation where credit markets are largely frozen. With the laundry list of actions taken by the Federal Reserve and the treasury, many of which were only enabled through the passage of TARP, we're beginning to see some cautious signs that credit conditions are beginning to improve domestically, but they are still very fragile given the turmoil that is occurring among European financial institutions. And, of course, the key risk is what are the exposures of US institutions to that turmoil at this stage.

Despite a tremendous decline in interest rates and despite the federal government in essence taking over Fannie and Freddie and making the implied guarantee an explicit guarantee, the rates on mortgages have not really declined appreciably. A 30-year fixed mortgage is still at 6.04 and a 15-year fixed is 5.76, so those rates are still high relative to 10-year treasuries, which have been yielding well under 4%.

September was the worst month on record for high-quality corporate instruments. That Index had a decline of over 6.5% in the month of September alone. That resulted in a decline in the calendar year to date return for the Index to negative 6.83. You have to contrast those negative returns with the positive returns from the mortgage index that was positive both in September and on a calendar year to date basis and the Lehman Treasury Index that had a positive return in September and has been the star performer on a calendar year to date basis.

The composition of the Lehman Mortgage Index is dominated through pass-through securities, government-guaranteed pass-through securities, mortgage pools, Ginnie Mae's, etc. as opposed to the non-government mortgages which is where much of the problem in subprime was concentrated. Mr. O'Leary affirmed that this particular mortgage index is more analogous to the treasury index as opposed to the U.S. credit index.

AIDEA has three portfolios: two externally-managed portfolios; Dodge & Cox and Alaska Permanent Capital; and one short-term, the Enterprise Fund, which is managed internally. The Enterprise Fund is very short term and super-high quality. Essentially treasury bills dominate it so you have done well and there appears not to be any credit issues.

Both externally-managed portfolios have their investment grade rating and the portfolios grew in six months through June. It's still a positive return: 5.03 for Dodge & Cox through the six months; and 7.29 for Alaska Permanent Capital. Mr. O'Leary is very comfortable with both portfolios as they are well diversified.

**6D. Overview of Hotel Studies – Michael J. Mohn, MAI, Principal, Kenney & Mohn**

Mr. Mohn reviewed the hotel studies for the board giving a current overview of the hotel industry within the US and on how Alaska's key markets figure in to the industry.

A macro perspective of the U.S. Hotel Industry is that we tend to ebb and flow based on the relative health and strength of the economy in general. Key factors influencing the hotel industry at present certainly include the collateral damage from the subprime meltdown as well as increased costs of fuel and basic commodities. Collectively these factors have tended to reduce the availability of capital and the disposable income available for travel. The latest growth cycle in the industry at large began in 2003 after a couple years of rather precipitous decline following the last recession and the events of 9/11. The U.S. Hotel Industry has since experienced five years of sustained growth. According to Smith Travel Research, 2007 was the most prosperous year ever for the U.S. Hotel Industry. During the latest growth cycle, occupancy increased during four of the five years and the average room rate and RevPAR increased during each of those five years. In 2007, the average U.S. hotel occupancy rate was 63.7%. It was down slightly from the prior year, about two-tenths of a percent. While the main growth was positive during 2007, a modest decline in occupancy was a function of growth and supply, which during that year out based growth and demand. Average room rates for the U.S. Hotel Industry just a little under $104 dollars, up 6% from the prior year.

The current pipeline for new hotel projects in the U.S. stands at an all-time high, but it appears that we have probably crested. Recent reports indicate that there are 5900 new hotel projects in the pipeline representing over three quarters of a million potential new guest rooms. Approximately a third of those are under construction right now. We are certainly seeing a greater scrutiny by lenders, larger equity requirements which effectively are eliminating many of the markedly qualified players and projects. Only one year in the past decade did the Anchorage market finish below 70% and that was back in 2003 at 67%. The overall Anchorage market remains very healthy at present obviously buoyed by 19 years of consecutive economic growth. Despite a modest decline in occupancy here in 2007, about 1%, we still finished at 72% occupancy, just slightly ahead of the ten-year average.

In the last ten years, we have had 13 new hotels open in Anchorage, all but one of them in the mid-market sector. There are two other mid-market hotels currently under construction and four more that we believe are likely to enter the market in the next plus or minus 3 years.

Overall, the outlook for the Anchorage market is still quite favorable. Occupancies will likely decline slightly as a result of the new supply that is coming on board. Rate growth is expected to flatten; the 6-7% growth we've seen in recent years will likely drop down to a more inflationary levels. We expect the market to maintain a solid premium in performance over the national averages.

Unlike Anchorage, the Fairbanks lodging market generally underperforms, typically achieving occupancies in the high 50 to low 60% range. 2007 and to a lesser extent 2006 were average years in the Fairbanks market. 2007 was 65%, which was a 5% increase over the prior year. 2006 was 60%, a 4% increase over the prior year. In both instances those increases were primarily due to an influx of military demand in the market during off peak periods. Average room rate growth in the Fairbanks market has been fairly steady, at or about the midline rate of inflation. The overall market achieved double digit growth in RevPAR in recent years largely as a result of the increase in occupancy combined with the perspective rate growth. Once again, given the seasonal fluctuations and demand, the mid-market hotels in Fairbanks also tend to outperform the upscale hotels, albeit by a smaller margin, than in Anchorage. Supply growth in Fairbanks has been fairly strong in recent years, albeit with the considerably smaller overall market. Rather than a decline for Fairbanks, I see it as a return to normalcy, so overall Fairbanks is reasonably healthy, the second strongest market in your state, slightly below the national averages.

For Juneau, the trend line is still being developed. The Juneau market as a whole performs slightly above the national average. Generally achieving occupancies in the mid-60% range, however, the market in Juneau is bifurcated with fairly large differentials in occupancy between the downtown submarket and the valley submarket. Downtown submarket is bi-seasonal and heavily influenced by legislative demand in the spring and to a lesser extent cruise tour demand in the summer. Unfortunately it's predominantly older product downtown. Occupancies are gradually improving, 58% to 61% in recent years. In contrast, the valley market, or submarket tends to be more stable over the course of the year and is dominated by demand by the commercial sector and government support segment. It also has comparatively newer product, unlike downtown, but to some extent a fair amount of dated inventory. Occupancies in the valley submarket are gradually improving. We have seen 73 to 75% in recent years, so there is a pretty big swing between the downtown market and the valley market, which really is largely attributable to a steady stream of business, less peaks and valleys, which is more characteristic of downtown. Average room rates in Juneau, $105 in 2007, a little bit above the national average. The overall market achieved growth in RevPAR averaging 6.3% in recent years once again reflecting a gradual increase in occupancy with mind to respectable rate growth. Supply growth in Juneau has been negligible in recent years, limited to a gradual build out of the Juneau hotel which should be completed this year. Based on our research there are no new hotels proposed for development at the present time. The outlook for the Juneau market is probably more of the same, no major improvements, no major declines. The significant factors for Juneau are the impact of voter-mandated 90-day session.

## 7. DIRECTOR COMMENTS

Mr. Leonard referred the board to their packets for the following items:

- Loan Activity
- Loan Delinquencies
- Project Updates and Discussions
- Callan Report June 30, 2008

Mr. Hemsath gave a brief update on the Snettisham Hydroelectric Project. He said in the short term, a replacement tower should arrive in Juneau in early December so one will be on hand. In the long-term aspect they are preparing an avalanche report which should be complete within the next month. They have an aerial map of the area and are looking at options for a permanent solution.

**6F Crossroads Leadership Institute Presentation – Dick LaFever & Terry Stimson**

Mr. La Fever gave a brief review of staff feedback stating Ted Leonard and Steve Haagenson's leadership style has created a more open and Caligula working environment.

From reading the feedback you have probably realized that a lot of people were very afraid to stick their head up, to speak up and to have their thoughts known - that is changing. We found that to be true in some of the follow-up meetings that were done and some of the actions that both Ted and Steve have taken to meet with employees in large group meetings and subsequent meetings that they've had down through the ranks. We feel like there's been a lot of progress made to turning the organization into a very healthy climate and there's a lot of work ahead of you folks. Having that kind of organizational culture is very important to people showing up and getting into the work and making things happen in a very positive way. We interviewed nearly every employee, 57 employees, including Ted and Steve. In subsequent meetings, we met with 43 people to go over the results and people had a chance to email us or to meet with us in person to try and get a rollup of the feedback that was going to be useable to the organization. There were a number of things that were identified and we put them into four separate categories starting with the creation of an open, trusting, and transparent environment.

Mr. Stimson stated the feedback that was collected in the interviews was put into broad buckets so it was workable in terms of broad concepts. The first recommendation process is the creation of an open, trusting and transparent environment. We found that a lot of people were feeling as if the environment was not conducive to them expressing their opinions and being able to talk very candidly with each other or with their managers or with their Executive Directors in the past. We have been very pleased with what we've seen with the attitude of Ted and Steve. They are both extremely employee-oriented and very concerned with the morale of the organizations.

Mr. Stimson said the higher the number, the more positive. The sampling of comments is broad because we found there was an incongruence between the written score on the Lichert Scale and what people actually said to us. As we would talk and they became relaxed and comfortable, then they started saying things that seemed to be a little less congruent with the scores. That's the reason we think a lot of these scores look fairly high, but when you read the comments then they don't support that high a score.

We are impressed with the approach both Ted and Steve have taken with this.

Mr. LeFever said it has been very positive from an organizational development or organizational leadership kind of perspective, but it also creates a new way of doing business which can create some discomfort within the organization. The long-term prognosis is to keep the focus on the strategic planning, empowerment of people, open communication, to have the kind of environment where people can raise issues without feeling any retribution. We have met with Ted and Steve numerous times and that is going to be a major focus for their work and for the deputies is to make sure that kind of organizational climate is not only talked about and espoused, but actually done.

Mr. Stimson said the employees were very appreciative of the opportunity to go through this process. Many commented that they were quite thankful that the Board had initiated this and there was an opportunity to express these concerns. Because of all the data we collected, it was a challenge to compile it into some broad areas. We gave some specific recommendations within each one of the four categories. We also were very aware of a need for a Human Resource Manager, a professional that would have that as their primary job. We are recommending that as a new hire that would address many of the concerns that surfaced during the interviews. Some concerns cannot necessarily be fixed but we wanted you to be aware of them.

Mr. LeFever said the graying of the workforce is something that every organization is challenged with. Some folks have been here for many years, have a great deal of insight and experience and others have come aboard bringing their own special skills and talents.

Mr. Stimson underscored the importance of a comprehensive salary schedule or salary study. In essence, some people feel the salary schedule is not equitable. There also are not many career ladders so people kind of feel stuck. We are suggesting that, within that comprehensive salary schedule, we take a look at how people could move within the organization because most people are very committed to staying here. By and large you have very little turnover; people like working here. There is a real commitment to the organization that I think you can even build on more with attention to the salary schedule and as Dick mentioned, the other areas that a Human Resource Manager would address.

### 6G. Executive Session, Healy Clean Coal Project

Mr. Bjorkquist stated there are two topics for Executive Session. There is a personnel matter to be discussed and there are Healy Clean Coal matters related to litigation/mediation and progressing with the project that are appropriate for Executive Session. The immediate knowledge of the Healy Clean Coal matters could be detrimental to the finances of the Authority and personnel matters are confidential as a matter of law.

**MOTION: Commissioner Galvin moved to go into Executive Session to discuss Healy Clean Coal matters related to litigation/mediation. Seconded by Commissioner von Scheben. There being no discussion, the question was called. A roll call vote was taken and the motion passed unanimously.**

**EXECUTIVE SESSION 11:45am**

The Board reconvened its regular meeting at 2:05 p.m.

A quorum was established. Chairman Kelsey advised that the Board had not taken any formal action on the matters discussed.

**MOTION: Commissioner Galvin moved to go into Executive Session to discuss a confidential personnel matter. Seconded by Commissioner von Scheben. There being no discussion, the question was called. A roll call vote was taken and the motion passed unanimously.**

**EXECUTIVE SESSION 3:08pm**

The Board reconvened its regular meeting at 3:43 p.m.

A quorum was established. Chairman Kelsey advised that the Board had not taken any formal action on the matters discussed.

8. BOARD COMMENTS

There were no board comments.

9. ADJOURNMENT

There being no objection and no further business of the Board, the meeting was adjourned at 3:44 p.m.

Ted Leonard, Executive Director/Secretary
Alaska Industrial Development and Export Authority