MINUTES
ALASKA INDUSTRIAL DEVELOPMENT and EXPORT AUTHORITY
Board of Directors
Wednesday, April 23, 2008 1:11p.m.
Anchorage, Alaska

1. CALL TO ORDER

Chairman John Kelsey called the meeting of the Alaska Industrial Development and Authority to order on April 23, 2008 at 1:11 p.m. A quorum was established.

2. BOARD OF DIRECTORS ROLL CALL

Members present in Anchorage: Chairman John Kelsey (Public Member); Deputy Commissioner Brian Andrews (Designee for Department of Revenue); and Emil Notti (Department of Commerce, Community and Economic Development).

Participating by Teleconference: Vice Chair John Winther (Public Member).

Joined the meeting at 1:30pm: Commissioner Patrick Galvin (Department of Revenue).

3. PUBLIC ROLL CALL

Staff Present in Anchorage: Sara Fisher-Goad (Acting Executive Director); Chris Anderson (Deputy Director-Credit); James Hemsath (Deputy Director-Development); Valorie Walker (Deputy Director-Finance); Brenda Fuglestad (Administrative Manager); and Sherrie M. Siverson (Administrative Assistant).

Others Present: Brian Bjorkquist and Mike Mitchell (Department of Law); Margie Bauman (Alaska Journal of Commerce); Cynthia Weed (KL Preston Gates Ellis); Pat Clancy (Western Financial Group); and Paul D. Kendall (Public).

4. PUBLIC COMMENTS

Mr. Paul D. Kendall: Mr. Kendall presented a letter and a list of papers for the Board's review. He wishes to speak with Mr. Haagenson about an Energy Forum. He requests $3500 in funding for a two-day forum to discuss energy and this should be recorded on video as a public event. The Energy Plan meetings in various communities should also be filmed. We should only visit four communities, not so many are needed. We need to get on with the electrical grid system.

VERBATIM recording began at 1:20pm

Mr. Kendall: Because it can kill a nation or a family or those people is paralysis or distraction and Alaska is being terribly terribly I think diverted from what it needs to get done. Your responsibility is to provide us energy for our homes and that should be electrical. And in closing with that, I wish you will look over this story of Rio Tinto very closely because if you can produce hydrogen for a 500 megawatt power plant, 15 of them, over a ten year period and a third of all the power plants are supposed to go off line, and you can produce that kind of hydrogen from coal, let alone coal, the hydrogen economy may be a lot closer to being upon us than we realize. And when I turn on the radio and I hear Murkowski talking about the Canadians having discovered a new gas line, turn on the news and I see Pennsylvania having a gas line field through three or four states, I really have to wonder who is in charge of this ship in Alaska because I'd be telling these boys, look, love you guys, come back when you show me the money and bring a shovel okay, but we need to put in a grid system and do it now. And I think I've gone over my time and I respectfully apologize for that. Thank you for the opportunity to come before such a distinguished board.

End Verbatim

5. NEW BUSINESS - Overview of Bond Process

Ms. Walker introduced Pat Clancy with Western Financial Group who will provide an overview of the bond process.

Mr. Clancy began with an overview of municipal finance. When you sell bonds there are a lot of different entities involved in the transaction which surround and assist AIDEA staff in selling bonds. A bond counsel reviews all the legal documents and prepares many of the documents to make sure that they conform to authorizations that you have, your legal ability to enter into agreements and the bonds are structured in a way so the bond counsel can give an opinion as to the enforceability of those documents.

A financial advisor's sole job is to advise you as to the best business terms you can get, make sure that the transaction is moving along, and be your representative in the transaction.

Many transactions require an outside feasibility consultant to look at revenues that are generated by a project. He projects those into the future so bond investors can make an informed decision about your ability to pay over time. An auditor is involved in preparing your financial statements on an annual basis. The bond documents reference those documents.

Intervening between you and the investors is a bond trustee. The trustee is an entity who is supposed to represent the investors in total, holds funds for you, makes sure that the flows back and forth between you and the investors move in a smooth fashion.

In a conduit financing, there is another bond counsel who works to represent the conduit issuer, the entity that is issuing through AIDEA.

Bond insurers and letter of credit banks are entities that promise the investors they will pay if you don't and they look at your credit. Both of these are involved in the transactions that we are describing.

Rating agencies evaluate credit worthiness and report to investors the likelihood of repayment, either by the bond insurers, the letter of credit banks, or by you directly. Investment bankers buy the bonds from you and then find investors to hold those bonds over time. They have a counsel who reviews their side of the transaction. These are the general players surrounding AIDEA predominantly led by your finance and accounting staff.

A transaction is complex and very time consuming. A transaction might take three or four months, but could take up to six months. The first step is to develop the financial and credit structure: what is it that you are funding, how do you plan to repay it, and what sorts of pledges will you make in order to promise that you'll repay the bonds over time. After this, you develop the document and underlying business agreement, make promises to bond holders through the bond resolution, and then prepare an official statement which describes the business agreements, the funding sources, and the basic bond documents. To introduce the credit, those are then sent to the rating agencies, to credit enhancers like bond insurers and what are credit providers, and then ultimately to investors. The rating agencies develop an opinion of the rating. The credit rating of the transaction can be a general credit rating such as your general revolving fund bonds, or can be one that is related to a specific transaction like the Snettisham bonds, which are more of a direct revenue bond. Between you and those markets there are often credit enhancers like AMBAC bond insurance. We now have State Street Bank as a Letter-of-Credit provider. The interplay between those makes a great deal of difference to the rating agencies. Ultimately we look for investors who will use or buy your bonds and in order to find those we structure bonds in a manner that would appeal to certain investing segments. We sell the bonds to the investors. Then we wrap everything up so the money flows from the investors to the banks and then to you.

In the end, the question is always asked; does AIDEA have clear legal authority to issue the debt? Sometimes there are questions about splitting revenues or borrowing in your financial structure related to mortgage-owned assets or properties. We are not dealing with any of these specific issues in this upcoming financing. In terms of the financing, the major issues related to selling the bonds relate to the credit overview. They are reviewed by the rating agencies, the credit enhancers, and the investors. Needless to say the stronger the credit, the lower the borrowing costs that you face and therefore, the more debt capacity you have.

The road map shows the flow of funds that are generally considered in a normal revenue bond structure. First there is revenue; those things that are pledged under your master resolution. Second is operating; making sure you continue to produce revenue so you can operate in a successful fashion. Then there are bonds and interest payments. Basically, you have revenues, you take away operating and have something left over to pay principle and interest. This is a ratio referred to in the business as the debt-service coverage. The higher that is, the more the bond investors like it. You pay the bonds and after the bonds are paid, reserves are funded in many bond issues, although AIDEA does not have a reserve fund on this transaction. So this is not a flow that relates to this particular transaction. In some instances, there are subordinate flows, a lower lien of bonds, and so after you pay the first lien, then you pay a lower lien, and then you operate transactions.

In looking at economic conditions and rating considerations, the rating agencies will look at your business plan, AIDEA in general, your strategic outlook, and how it is that you do business and plan for future business. It is a very important consideration for AIDEA because being a governmental entity that is not dealing in specific set of services, like water and sewer services, your business is really driven by your view of where you go in the future. The strategic outlook of AIDEA is a very important consideration in thinking by the credit markets. Adding to that strategic outlook, the continued structure of AIDEA's governments, the way you as a Board operate, the sort of responsibility that you take for overseeing the business decisions that are going on, AIDEA's business structure and AIDEA's operating structure, all go into considerations, and these first two areas are where you have the most control as a board in terms of determining the credit strength of AIDEA, and that is continuing focus on areas that produce revenues and continuing to run the organization as a sound business as it has for the last several decades.

There are factors that are outside of your general control that have to do with business and market position. AIDEA is an entity that exists within an economy. Things within your mission will take turns that are beyond your control and these sorts of things are drivers in the credit markets as they take a look at the success or failure of the local economy and of the businesses and projects in which you've invested.

Last, there is a financial analysis and that is something greatly under your control in the sense of financial controls and performance, what you do with your money, how much you keep in the bank, stability and growth, and liquidity. These things are looked at by the credit analysts.

Thoughtful and thorough management and decision making, strong planning and financial controls, and a strong portfolio of business will continue to make AIDEA investment grade. For instance, this has been an increasingly important consideration by Standard and Poor's as it relates to AIDEA. They took your loan portfolio and treated it as if it was a bank loan portfolio and did an analysis of the various sectors involved, the various credit strengths, and gave you credit for that.

There has been a major change in the perception of the rating agencies and how they look at AIDEA. Previously they looked at AIDEA as an entity that had a couple of large projects, like the Delong Mountain Transportation System, and had a bunch of money in the bank. Now they give us a lot of credit for the loan portfolio. They look at the revenue, diversity and stability in the portfolio as a very major consideration. They also look at your other projects because you have some great concentrations and large projects. They look at those and how you can continue to manage those and how successful they are.

In many projects and financings, they look at rate-setting ability. In your case, they look at your business management ability; how good the contracts you make are, what sort of return you get on your projects and how that functions. They look at debt-service coverage and do not want you to be overly reliant on one-time transactions. AIDEA has done very well in these instances.

Moody's and Standard & Poor's have rating categories. Recently there has been a lot of conversation about the municipal ratings that Moody's and Standard & Poor's use in a crosswalk from municipal ratings to corporate ratings. On this scale, everything in the A category and above in the crosswalk from Moody's public finance scale to the global scale, would result in a triple-A corporate global rating. You can see that AIDEA is in the A category, which results in a global rating at the triple-A level. This is very strong credit, judged as a very strong capacity for repayment.

The state has continued to show strong support for AIDEA as a key development agency. The coverage ratio's liquidity, historically and projected, is strong. AIDEA's strength has been a major mitigating factor to the rating agencies understanding that AIDEA's role will involve investment in some projects with greater-than-normal market risk. I don't think this is a major concern for them, but if it were the only thing you were to invest in, it would become so.

The Dividend Policy has been a credit vulnerability, but at the same time is considered a credit strength. The fact that there is a predictable method of calculating the dividend to the state was considered a very strong positive when that was put in place and so that dividending to the state is a credit vulnerability, but the policy itself is a credit strength. And the ability to sustain, ability to substantially increase leverage and reduce coverage is always a consideration in case you were to become a major lender and move forward.

Mr. Clancy said the key factors in the state support are positive support in a sense that the state continues to see AIDEA as an important and vital agency, essential to the state's success. Essentiality and sort of in need is a great credit strength from the market perspective because it gives them a sense that the state won't do anything to mess up the goose that lays the golden egg in terms of economic development. The other side of that is that the state leaves AIDEA alone. So there is the "we like AIDEA and we use them and we encourage them to pursue their policy" and at the same time "let them pursue their policy" rather than the state managing them directly and in being very active in terms of internal decisions, sort of a one-arms length removed, let them work as a business, I think has given them a great deal of comfort. Mostly, because the Board and AIDEA's management has done such a good job in running the business very well, the rating agencies have gotten comfortable with that relationship and I think that has been a great credit strength. We have had analysts who have worked on AIDEA's credit for over a decade now. They've grown very comfortable and understanding the sort of essential role in the relationship between politics and business. AIDEA is a political entity, everyone understands that AIDEA is a political entity, but it is allowed to fulfill its mission in a business-like manner and that has been a credit strength.

Discussions ensued regarding moral obligation.

Mr. Clancy said we think the dividend policy and the fact that the state's been willing to live with the policy as it is written, and every year that the state continues to live with that, strengthens that policy. The reason we developed the policy years ago was to make it predictable.

Mr. Clancy said we continue to believe that rating agencies have not given full credit to the loan portfolio. The upgrade came from them becoming more comfortable with the portfolio and with the dividend policy. They only looked at how much cash AIDEA had and the fact that they had five times as much cash as it had debt didn't make any difference because they were worried the state would come in and take all the debt, the money away.

Commissioner Galvin said the state recently received its own upgrade and it would seem that that would make headroom. So why would the state look to AIDEA when we could get it cheaper ourselves. Mr. Clancy agreed that the headroom from the state certainly creates some headroom and we are talking to the agencies about that at the point in time.

Commissioner Galvin: You mentioned uncertainty with DMTS being an issue. What is perceived as the uncertainty and how is that affecting the perception of the ratings?

Mr. Clancy: I don't think it's really affecting the perception of the ratings at this moment in time. We think it's hard to have a conversation at this moment in time with the rating agencies given some question about the long-term status of a major revenue source for AIDEA.

Commissioner Galvin: Is that perception out there simply because there is somebody asking? Mr. Clancy said that and that the Board has not made a decision.

Cynthia Weed, PGE, stated she is a partner at K&L Preston Gates Ellis. We are relatively new to this board as one of your co-bond counsel working on bonds revolving fund, revenue bonds. We have worked with this board in the past over many years as representing the underwriters, as underwriter's counsel. So it was only in the recent RFP process that we became, along with Birch Horton & Bittner, I hope I got that correct, with Ken Vassar, to act as one of your co-bond counsel on certain types of bonds that you would issue from time to time. So we are familiar with AIDEA but this is the first appearance that we are making before you as bond counsel. I've been with the firm for many years, yes, since the ice age. I've been with our firm since 1978. Our firm has acted as bond counsel in the state of Alaska for a number of entities for many years. It well pre-dates my tenure, frankly, and goes back to the early 1940's. We have consistently been bond counsel to the state of Alaska since I think it was about 1982 or 1983, for the state of Alaska. We act as sole bond counsel for the state of Alaska. We've been bond counsel to the Municipality of Anchorage, actually it predates unification. We were bond counsel to the city of Anchorage before unification and then became bond counsel to Anchorage, doing revenue bonds in 1975. I myself only started because there only, keep this brief, but I've been traveling up here doing bond work for Anchorage, for Juneau, our firm acts as bond counsel for Fairbanks, Ketchikan, a variety of other jurisdictions here in the state of Alaska, so I am not unfamiliar with state issues as well as local government issues here in Alaska.

In this regard actually we acted as underwriter's counsel last year when you did this current bond issue, so in that respect we participated in all of the documentation that you did for this transaction last year and we've just reversed roles this year. Ken Vassar is now acting as underwriter's counsel on this transaction and we're acting as bond counsel. It is a very friendly relationship speaking for myself and I believe for him as well. The uh, there are, I love to talk about myself but I think I've probably gone on long enough.

There are three resolutions potentially for your consideration today and the first is a restatement of a resolution that you did last year. The fact that you are restating the entire resolution does not mean that there are any significant changes to it. It really is so that when the board considers the revolving fund resolution, they just look at one document. They just don't look at a document that was adopted last year and then have a string of separate pieces of paper that are amendments. So the amendments are being made this year are relatively modest. The first authorizes a series resolution from time to time to have a slightly different notice of redemption of bonds that you would issue. But let me just focus on two that are of particular importance to your cash management.

The prior resolution required that you have an unrestricted surplus that was the lesser of $200 million dollars for outstanding bonds, but in any event, never less than $100 million dollars. And keyed off of that was a requirement that you keep a certain percentage of that and it was always going to be 25% no matter what, 25% of $100 million dollars, or $25 million dollars, in un-invested liquidity assets. And that frankly, particularly as we saw your bond balances go down, was going to have a financial impact on you. You were going to be required to keep a substantial amount of your assets effectively un-invested, or in treasury securities. In either event, not getting what we perceived potentially to be a better rate of return for you, because it was a liquidity requirement.

So we created a definition of what are called "cash-equivalents". They are just keyed off of certain, in the definition you currently have of permitted investments. These cash equivalents are number one through eleven of your permitted investments, but they are basically liquid, money market securities. They are investments that could be converted to cash in very rapid order.

The second is that we modified the minimum requirement for this liquidity to be the lesser of $50 million dollars or 25% of your bonds outstanding. So you still have a very substantial liquidity position, hopefully earning a better rate of return, but not at least $100 million dollars relatively un-invested. That is the primary change. So you have a whole resolution here but there are not a lot of changes inside of this resolution. Are there any questions on that?

Mr. Winther asked if the Board was going through this exercise in the event of the sale of Delong Mountain. Ms. Walker replied that we are going through this exercise because of the turmoil in the insurance markets. During the process of preparing documents for the refunding bonds, we were able to identify some issues that needed to be changed so we're taking the opportunity to make those changes.

MOTION: Commissioner Galvin moved to approve Resolution No. G90-2D. Seconded by Commissioner Notti. There being no discussion, the question was called. A roll call vote was taken and the motion passed unanimously.

7C. Series 2008 Revolving Fund Refunding Bonds

RESOLUTION NO. G08-04 REVOLVING FUND BOND SERIES RESOLUTION A RESOLUTION AUTHORIZING THE ISSUANCE OF $107,385,000 REVOLVING FUND REFUNDING BONDS, SERIES 2008A AND SERIES 2008B OF THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

RESOLUTION NO. G08-05 RESOLUTION OF THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY PROVIDING FOR THE SALE OF $53,795,000 ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY REVOLVING FUND REFUNDING BONDS, SERIES 2008A AND $53,590,000 ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY REVOLVING FUND REFUNDING BONDS, SERIES 2008B; AUTHORIZING THE EXECUTION AND DELIVERY OF A BOND PURCHASE AGREEMENT AND A PRELIMINARY OFFICIAL STATEMENT WITH RESPECT TO THE BONDS; PROVIDING FOR THE APPOINTMENT OF A TRUSTEE; AND PROVIDING FOR RELATED MATTERS.

Ms. Walker stated Resolution No. G08-04 and G08-05 authorize the sale of bonds that will refund currently outstanding variable rate bonds that were issued just over a year ago. The currently outstanding bonds are insured by AMBAC and current market conditions associated with AMBAC, including a loss announcement that they made, make it advisable for the Authority to refund the bonds and replace them with bonds which are backed by a letter-of-credit. The letter-of-credit is with State Street Bank. Currently, State Street Bank has a standby letter-of-credit on our outstanding bonds. Basically, we are going to be taking our outstanding bonds, get rid of AMBAC and having the same structure in place. Pat Clancy, our financial advisor, will explain the process that we went through.

Mr. Clancy stated that in the last several months there has been a major crisis of liquidity in the credit markets that has affected the bond insurers. Last year we sold bonds for AIDEA and had them insured by AMBAC bond insurance because bond insurance companies were forever triple-A credits. We have all learned that the world has changed dramatically and AMBAC has had its ratings reviewed with a negative outlook by Moody's and Standard and Poor's and has been downgraded by Fitch to double-A. They are expecting significant market losses related to the subprime mortgage lending crisis which has occurred.

Because of this crisis, the variable rate bonds that AIDEA has outstanding began to trade at much higher rates than they would have expected to trade. That market has stabilized a great deal and we are seeing AIDEA's rates at about 3.7% now.

In response to board questions, Mr. Clancy said that in order to move forward with the transaction State Street Bank wanted to be assured that they could receive fees to amortize their costs and expenses and we have agreed in this transaction not to cancel the letter-of-credit until August 2, 2009, after which time the field is open and we can renegotiate with this firm or anybody else.

Ms. Weed reviewed the resolutions stating they authorize the Authority to issue $107,385,000 principal amount of the Authority's Revolving Fund Refunding Bonds, Series 2008A and Series 2008B (the "2008 Bonds"). The 2008 Bonds will be general obligations of the Authority and will be supported by the Authority's credit. The 2008 Bonds will be secured by an irrevocable letter of credit to be issued by State Street Bank and Trust Company.

The purpose of the 2008 Bonds is to redeem and refund the Authority's outstanding Revolving Fund Refunding Bonds, Series 2007A and Series 2007B (the "Refunded Bonds"). The Authority issued the Refunded Bonds in 2007 for the purpose of refunding bonds issued in 1997 which financed an expansion of the port facilities at the Authority's DeLong Mountain Transportation System ("DMTS") and refunded a portion of the 1987 bonds issued to finance original construction of the DMTS port facilities.

The Refunded Bonds are variable rate bonds and are insured by AMBAC Assurance Company, with a standby bond purchase agreement from State Street Bank and Trust Company. The sole reason for refunding the Refunded Bonds is to eliminate exposure to AMBAC - the decline in the credit reputation of AMBAC has caused interest rates on the Refunded Bonds to increase dramatically during the past months. Refunding the outstanding bonds using a State Street irrevocable direct pay letter of credit is projected to lower the Authority's borrowing rates.

Resolution No. G08-04 establishes the general terms of the 2008 Bonds. It creates several different interest rate "modes" that can apply to the 2008 Bonds. Under the terms of Resolution No. G08-04, the 2008 Bonds will be issued in a Weekly Rate Mode, but the Authority can change the 2008 Bonds to a Weekly Rate Mode, a Flexible Rate Mode, a Term Rate Mode or a Fixed Rate Mode. The final maturity and the sinking fund redemption schedule for the 2008 Bonds will not be changed and will remain as established for the Refunded Bonds (final maturity in 2027). Resolution No. G08-04 also approves the form of a letter of credit and reimbursement agreement with State Street Bank and Trust Company and allows the Executive Director to negotiate changes to this agreement.

Resolution No. G08-05 approves the form of a bond purchase agreement for the sale of the 2008 Bonds and the form of a preliminary official statement to be used in connection with the marketing of the 2008 Bonds. Approval of Resolution No. G08-05 will permit staff of the Authority to proceed with the sale of the 2008 Bonds to Goldman Sachs & Co and Merrill Lynch & Co. At this time, we anticipate a closing to occur on May 29, 2008.

Discussions ensued with regard to AMBAC's current situation.

Mr. Bjorkquist stated AIDEA has the capability of expending money without appropriation and, therefore, fits within an exception to the Attorney General's general rule that you cannot have indemnifications. He stated that this is in the resolutions and documentation going forward with the transaction. This is a continuation of indemnifications that currently exist under the existing bonds.

Discussions ensued with regard to indemnification changes over the years.

MOTION: Commissioner Galvin moved to approve Resolution No. G08-04 and Resolution No. G08-05. Seconded by Commissioner Notti. There being no discussion, the question was called. A roll call vote was taken and the motion passed unanimously.

Ms. Fisher Goad stated that there was a need to add an Executive Session between agenda items 5 and 6 to discuss potential legislation regarding Snettisham.

MOTION: Commissioner Galvin moved to go into Executive Session to discuss potential legislation regarding Snettisham. Seconded by Commissioner Notti. There being no discussion, the question was called. A roll call vote was taken and the motion passed unanimously.

EXECUTIVE SESSION: 2:30 p.m.

The Board reconvened its regular meeting at 3:11pm. Chairman Kelsey advised that the Board had not taken any formal action on the matters discussed.

A quorum was established.

6. BOARD COMMENTS

Commissioner Galvin suggested that an update on the Healy Clean Coal Project be presented at the next regular AIDEA board meeting.

7. ADJOURNMENT

There being no objection and no further business of the Board, the meeting was adjourned at 3:14 p.m.

Sara L Fisher-Goad

Sara Fisher Goad, Acting Executive Director/Secretary
Alaska Industrial Development and Export Authority