

Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
August 13, 2009
Anchorage, Alaska

1. CALL TO ORDER

Chairman Pat Galvin called the meeting of the Alaska Industrial Development and Export Authority to order on August 13, 2009 at 12:33 p.m.

2. BOARD ROLL CALL

A quorum was established.

Members present in Anchorage: Chairman Pat Galvin (Commissioner, Department of Revenue); Michael Felix (Public Member); Commissioner Emil Notti (Department of Commerce, Community & Economic Development); Commissioner Leo von Scheben (Department of Transportation & Public Facilities); and Vice Chair John Winther (Public Member).

3. CONFIRM NOTICE REQUIREMENT AND AGENDA APPROVAL

Mr. Leonard announced changes in the order of items in Executive Director Report: (1) Callan Report, (2) Greater Fairbanks Hospital Revenue Bond Project, (3) Gateway Project with Skagway, (4) Update on DMTS, (5) Strategic Management Plan, (6) Divestiture.

Mr. Winther made a motion to approve the agenda as amended and Commissioner von Scheben seconded it. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Messrs. Galvin, Winther, Felix, Notti and von Scheben voting yea.

The agenda was approved as amended. Public Notice requirements were met.

Turned gavel over to Vice-Chair, Mr. Winther.

4. PUBLIC ROLL CALL

Staff present in Anchorage: Ted Leonard (AIDEA Executive Director); Steve Haagenon, (AEA Executive Director); Sara Fisher-Goad, (Deputy Director-Operations); James Hemsath (Deputy Director-Development); Valorie Walker (Deputy Director-Finance); Leona Hakala (Loan Officer); Chris Rutz (Procurement Manager); Mark Schimscheimer (Project Manager); Brenda Fuglestad (Administrative Manager); and Sherrie M. Siverson (Administrative Assistant).

Others present in Anchorage: Brian Bjorkquist and Mike Mitchell (Department of Law); Pat Clancy and Mark Gardiner (Western Financial Group); Ken Vassar (Birch Horton Bittner & Cherot); Tim Bradner (Alaska Journal of Commerce); Paul Kendal (Public); Robert Sheldon (Arbor Capital Management); Dave Case, Suzy Erlich, Walter Sampson, Carl Wisner, Denali

Whiting, and Mayor Siikauraq Martha Whiting (Northwest Arctic Borough); Tom Cochran (Mayor-Municipality of Skagway); Tom Smith (Borough Manager-Skagway); Paul Taylor (Engineer-Skagway); and John Walsh (MJ Walsh Co.-Skagway).

Participating via teleconference: Greg Winegar (DCCED Division of Investments).

5. PUBLIC COMMENTS

Summary of public comments – to listen to full meeting go to AIDEA's website.

Robert Sheldon, Arbor Capital Management. Comments made by Mr. Sheldon are incorporated as an attachment to the minutes.

Siikauraq Martha Whiting, Mayor of the Northwest Arctic Borough ("NWAB"). Referencing the DeLong Mountain Transportation System, the NWAB requested that AIDEA consider the sustainability needs of the NWAB. If this resource were not available, the State and AIDEA would not be as successful as they currently are.

The top priorities for the NWAB are: 1) obtain a new source of revenue, 2) provide basic services such as water and sewer, and 3) public safety in our communities.

The NWAB is looking at other resource development opportunities and would like to have AIDEA, as a partner, make sure these visions become a reality. The NWAB also wants to make sure that it benefits, especially from a resource in its back yard. On another note, the NWAB is also looking at possible transportation corridors in their region.

Suzu Erlich, Northwest Arctic Borough ("NWAB") Assembly. She stated she was one of the major players in the formation of the NWAB. She stated the only thing the NWAB is asking for is the DMTS. They are not asking for anything from the mine itself. The NWAB needs a local resource, as the mayor has pointed out, to provide services. The NWAB wants control over the state to develop its resources to serve its people to continue on with the mission that the state requires for a borough entity to provide services and self sustainability.

Carl Wisner, Northwest Arctic Borough ("NWAB"). He pointed out Anchorage, Kotzebue, and Kobuk on a state map. He stated he has friends who drive trucks at the Red Dog Mine. He spoke about the need for additional public safety officers in the villages in the NWAB. If we were to look for additional revenue streams, we might have to tax the people of the area and there is a very small percentage of people that have jobs in each of those villages. The DeLong Mountain Transportation System could give the NWAB an opportunity to provide a village public safety program, which we estimate to be about \$10M annually. He stated he believes AIDEA has the ability to help the NWAB get there and hopes that they do that.

Walter Sampson, President of the Northwest Arctic Borough Assembly. Mr. Sampson stated that as a leader for the people of the region he has to think in creative ways of what is needed for the future of the people in the NWAB.

With the encouragement of the state of Alaska the NWAB was created. Even though the mine sits on our private lands, the state of Alaska still benefits from that mining operation. The Borough was created in 1986 to: 1) support education, and 2) create an opportunity for the residents of the region. Based on the revenues from the Red Dog Mine, we've constructed

seven new schools within the region, but the NWAB has maxed out its bonding capacity. Last year we received state of Alaska grant funding to get a no-tax school constructed.

For the last several years we've gone through three different Governors in trying to either acquire the DMTS or partnership with AIDEA on the facility. The proposal was submitted to you last year with the hope that you would act on that proposal. We still have high hopes in that you've heard from the previous testimonies that the needs are great. The cost of living within our region is much higher than anywhere in the state of Alaska. In order for somebody from Kobuk to travel to Kotzebue and back, that's over \$400 ticket right there. The cost of fuel is much higher.

Based on what AIDEA was developed on, basically as I understand it, was to create an opportunity for that area, which it did, an economic base. We certainly appreciate your process in creating that. Now that you've established that, we would like to purchase it so we can continue to nurture that and create additional opportunities for the residents of the region. However, we are looking at other resources in the region based on the seismic work that Chevron did back in the early 70s and 80s. If there are finds in those areas, that is certainly something that we want to move ahead in partnering either with AIDEA or with someone else to develop that resource.

In the early days, the people of our region objected to any type of development because of the importance of living off the land. Today, because of services that are coming into the region, people are starting to diversify and say hey, create an opportunity for us so we can go to work.

Commissioner Notti thanked the delegation from Northwest Arctic Borough.

Dave Case, Northwest Arctic Borough ("NWAB") Attorney. Mr. Case stated that in some ways maybe the process we are going through with the current proposal on the table has gotten the cart before the horse. We're not sure what your proposal is and yet now we're commenting on it already and maybe we'll have a chance to respond to that at the time that is discussed. The Borough is not here to ask for charity or a handout, or to use any kind of political approach to separating AIDEA from its assets. In fact, we have discussed the possibility of purchasing the DMTS and that's been rejected. I do not understand that to be on the table today, so the idea of buying or acquiring the DMTS at less than fair market value is simply not something that is before you today, and will probably never be before you because, as Mr. Sheldon pointed out, that wouldn't make any sense. I think that we would all probably agree on that point. What is before you though is the way in which we believe AIDEA's financing of the DMTS has escalated and increased its return beyond what is really fair or reasonable or was contemplated in the first place. In a way that is now taking revenue out of the region and putting it into the State general fund instead of being able to be used in the region where the resource is obtained. Now this is a fundamental problem with State policy in general. In many ways it takes resources out of rural Alaska and puts them into the center and then we have complaints that rural Alaska is not supporting itself. Well one of the reasons, I will suggest to you, that it is not supporting itself is because millions of dollars are going into the State general fund that really should stay in rural Alaska where they can be used. That's what we are looking at here. Nobody faults AIDEA; in fact you are praised for financing the DMTS and doing what Dave Rose said AIDEA was intended to do, that is, take on financing obligations and risks that would not be taken on by private enterprise. The fact of the matter is though we are far beyond that. The DMTS is now a sound investment. It's not risky in anybody's mind. The mine is mature and has recovered its capital and is for all intents and purposes a solid investment for at least the next 30 years.

Finally, why isn't the Borough taxing? Why isn't the Borough raising revenue from other sources? Members of the Borough assembly have touched on this and been very clear about it. We have looked at how to raise tax revenue within the Borough and have concluded that there is only one source of tax revenue in the Borough and it is the Red Dog mine and in any other future potential mine. Most of the land in the Borough is in restricted status. The only people in the Borough that would pay taxes on property are non-native people who own unrestricted property and businesses and that would not raise enough revenue to do what the Borough needs to do to provide minimal services for its people. A sales tax, similarly because of the poverty in the Borough, would not raise any money to speak of and in fact, it would make it difficult for the cities in the Borough that have their own sales taxes to collect those taxes as well. So the only source of tax revenue is in the ground in the Borough and it is going to the state of Alaska in the form of what we think are the excess fees on the DMTS and in the State mining tax. We are talking to AIDEA about adjusting your priorities and this flow of capital from your investment and in a relatively modest way that would benefit the Borough, not affecting AIDEA's bonding capacity or their credit worthiness.

Chairman Galvin: Thank you and because you raised the question of the proposal being put on the table, there is no proposal per se. The Board has not taken up this issue. What we have received is the request, as it were, from the Borough to look at the way that the cash flows are generated by AIDEA, evaluate what is characterized by the Borough as excess revenue that is being generated, and decide if there is an appropriate re-allocation of that between the Borough and AIDEA. We have requested staff provide the Board with their input with regard to that description and provide us with background with regard to those payments. That agreement is extremely complex and the question of the extent to which the investment has been fully paid off or is going to be paid off and these payments are in excess, is one that is up for consideration by the Board. We will be hearing from staff today regarding the nature of the relationship between AIDEA and Teck; how those agreements came about; and the nature of the payments, so that the Board can assess the request coming from the Borough. We don't anticipate, and it wouldn't be fair at this point, to suggest a dialogue happen today. What we hear today will provide the framework for further discussions between AIDEA and the Borough.

Commissioner Notti said the Borough was created about 1983 while he was Commissioner of DCRA. He had to go to Washington DC to the Department of Justice (DOJ) on the voting rights act. DOJ held up the Borough for two years because they didn't think the people could read or write or vote right. So he went back and talked to the attorneys. When the Borough was created they were to get ten percent of any existing State lands to help the Borough get established. They got an additional amount of \$300,000 the first year and \$200,000 the next year in order to make the Borough succeed. He said the State wants the Borough to succeed and whatever happens here, he is sure it will be done within the constraints of the Legislative intent and we will deal as fairly as we can with them.

Denali Whiting, Student Body Vice President, Kotzebue High School. She stated she would like to go out of state for college but then come back and work for her community. She commented that it is not very appealing if she has to come back to the high price of living when she can easily move to a city where it's much easier and cheaper to live.

Paul Kendall, Public. Mr. Kendall stated he is concerned about where Alaska is going and how great its future is. He spoke to clean electricity; water; and hydrogen. He said all of the state departments should be focusing their revenue for one partnership; that partnership should be

clean electricity and water. He sees good people, strong commentary, connected to their ideals and their needs, but there is no process to be able to have a greater dialogue. We need some type of a congress on a monthly basis where the leaders can come in and part this out so we can hear the small voices and large voices.

He said he just heard a presentation by AEA and thought it was terrible and it was representative of the fundamental problem. There's no great vision and no excitement of insight of energy. He said every individual, every dwelling, and every project should have an energy footprint. By having that energy footprint you can see where the allocations are going. He cited car manufacturers where "miles per gallon" will no longer be a reference; we will soon be using kilowatt hours as a reference. He spoke of battery packs that store enough energy to run a house for half a day. He mentioned the five cities designated as Nissan Electric Vehicle test points: Seattle, Portland, San Diego, Tennessee, Phoenix, and Tucson. Alaska should have been one of those test points. He stated we cannot do business as usual.

6. PRIOR MINUTES – June 25, 2009

The minutes were approved as presented.

7. OLD BUSINESS

There was no old business.

8. DIRECTOR COMMENTS

Director's Status Report of AIDEA Programs and Projects

- **Callan Report June 30, 2009**

Mr. Michael O'Leary provided an overview of the June 30, 2009 Callan Report.

He stated the last time he spoke with the Board the financial markets were in disarray and the market values of the portfolios had declined fairly substantially. Things have now begun to return toward more normal levels. Fiscal Year 2009 was a tale of two halves: the first half was abysmal and the second half that ended June 30 was very constructive. In 2008, the spreads literally went to unprecedented levels in modern history then began to respond to the significant injections of liquidity by the federal government. Confidence began to come back to the financial system. We're still at levels that are historically stressed but the economy is certainly stabilizing, but still in a weakened condition. However, our sense, and the sense of most who follow this closely, is the freefall seems to have come to an end and we're groping for a bottom of economic activity. The question now is what shape the recovery will be: muted or a substantial snap back? He believes the recovery will be muted.

AIDEA's total fund line for almost all the periods, has achieved returns slightly in excess or very close to the target index for the funds. Fiscal Year 2009 shows the short term, internally managed enterprise development fund had a return of 1.35%, which is low in absolute terms, but is a reflection of the current low level of interest rates and it is superior to the 90-day treasury bill index and, therefore, in line with expectations. The two longer-term core fixed-income managers (Alaska Permanent Capital Management and Dodge & Cox) both recovered from under-performance in the first half of fiscal year 2009 and achieved better than benchmark

returns for the full year: Dodge & Cox earning 659 and Alaska Permanent Capital 630. Our frame of reference for that is the Barclay's aggregate bond index which returned 605 for the fiscal year.

In response to Board members, Mr. O'Leary affirmed that the AIDEA portfolio has met its objectives and that all three portfolios achieved competitive returns.

- **Greater Fairbanks Hospital Foundation Revenue Bond Project**

Mr. Vassar provided an update on the Greater Fairbanks Hospital Foundation Revenue Bond Project presented at the March 13 board meeting.

AIDEA has had an ongoing interaction with the Greater Fairbanks Community Hospital Foundation now for the past several months. In March, this Board adopted Resolution No. G09-03 which authorized AIDEA to issue up to \$135 million dollars of bonds and also to take part in the conversion to a fixed-rate of a portion of the bonds that had been issued in 2004 for the Hospital Foundation. We were able to complete the lion's share of that financing project, but not all of it. AIDEA, in conjunction in working with the Foundation, converted approximately \$28 million dollars of the outstanding bonds that had been issued in 2004 over from a variable interest rate to a fixed rate. The remaining part of it was the focus of the refunding and what we were trying to take care of when we issued new bonds in March. Because of limitations at the time, in the economy and in particular with Letter of Credit banks, the Hospital Foundation was unable to arrange a Letter of Credit that at the time would allow it to do a complete refunding of all of the remainder of those 2004 bonds. The Foundation was able to take care of a portion by drawing on a line of credit, but it's a short term line of credit and it's not something that they can keep outstanding over the long term. They now have an expression of interest from another bank to provide a Letter of Credit so that they can complete the refunding and take all of the remainder of those 2004 bonds that have not already been refunded and refund the rest of it.

In addition, what Resolution G09-03 authorized was the issuance of new bonds to finance the Harry & Sally Porter Heart Center: which has not been done yet. This presentation to the board is purely for informational purposes. The bond issuance is scheduled for November, with documents coming before the Board in October. This is a conduit revenue bond issuance. No credit or assets of the Authority will be pledged as security or will be put at risk for the payment of this debt. This is purely AIDEA providing a conduit source for making this financing a tax-exempt financing and thus achieving better interest rates for the Foundation than they would achieve otherwise.

- **DeLong Mountain Transportation System**

Mr. Hemsath provided an update on the DeLong Mountain Transportation System (DMTS). He gave an overview of cash flows, stating that under current projections, AIDEA expects the magnitude of the payment at approximately \$72 million dollars through the life of the contract.

As background, he stated the Red Dog Mine is in the Northwest Arctic Borough. The port is 52 miles from the mine on the coast of the Chukchi Sea. The DMTS stating it is made up of a multi-user gravel 52-mile haul road with bridges; two very large concentrate storage buildings; shallow water dock; conveyor concentrate loading system; offshore ship loader; fuel distribution and 15 million gallon storage system; 96-bed personnel accommodation center; port site lay-down yards, surge binds, electrical generation and other facilities.

Normally, there are 505 off-season employees and 617 employees during the shipping season. Of the people employed at the mine and port, 58% are NANA shareholders. Approximately \$223 million dollars in salaries goes to those shareholders.

Teck has done a study on their own and they are stating that since the inception of the mine in 1990 approximately \$1.3 billion dollars in economic benefits to region; \$1.2 million in support of regional programs in 2007; somewhat less than that in 2008; and approximately \$6.5 billion dollars in net proceeds to NANA is anticipated over the life of the mine to 2031. Some 70 vendors are involved in one form or another in the development and operation of that mine.

From an economic development perspective, AIDEA's ability to own and operate the DMTS has resulted in the mine opening, has done a good economic job in the area.

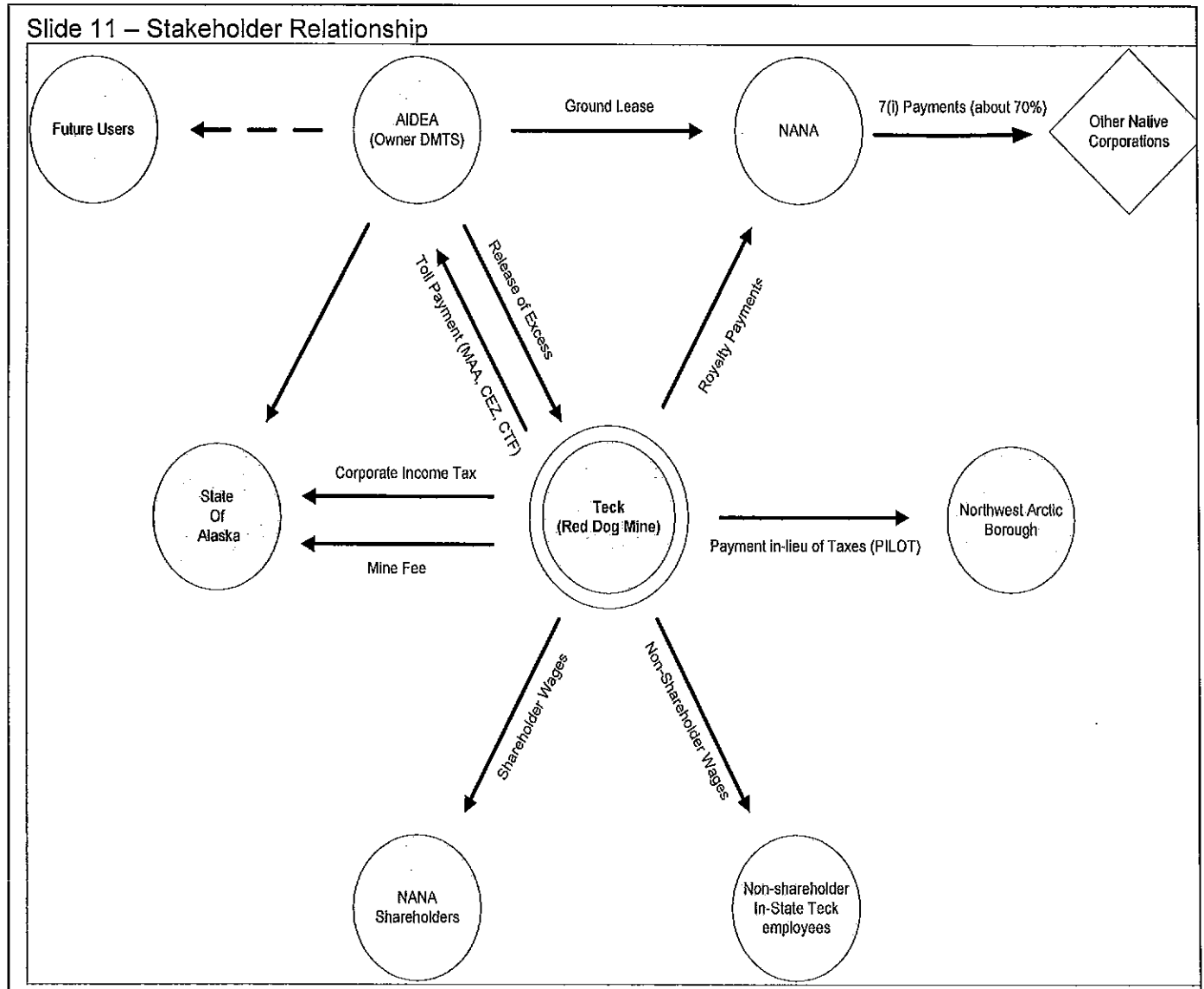
He gave a brief overview of the deposits in the Red Dog district indicated in the slide below:

Slide 9 – Major Deposits of the Red Dog District				
Major Deposits of the Red Dog District	Ore (tons)(2)	Years of Operation	Mine type	Zinc (%)
Red Dog Main Pit	26,400,000	1990-2012	open pit	20.5
Aqqaluk(1)	55,600,000	2010-2031	open pit	16.4
Qanaiyaq	4,800,000	2016-2025	open pit	23.4
Paalaaq	13,000,000	Not in Mine Plan	underground	15.0
Anarraaq	17,200,000	Not in Mine Plan	underground	15.8
Lik / SuLik	big	Not in Mine Plan	underground	9.16
<p>Notes: Tonnage inclusive of Proven, Probable, Indicated and Inferred Reserves</p> <p>(1) Aqqaluk opening is dependent on current outcome of EIS</p> <p>(2) Values from Teck</p>				

He briefly review concentrates shipped since 2006 (*indicated in the slide below*):

Slide 10 – Concentrate Shipped				
Concentrate shipped (SDT)	2006	2007	2008	2009 (Projected)
Zinc	1,129,037	1,173,047	1,009,772	
Lead	252,174	287,256	270,557	
Total	1,381,212	1,460,303	1,280,329	1,386,142
Notes: 1) Zinc & Lead are shipped as a concentrate that averages about 56% product 2) Concentrate is produced year around. Concentrate is stockpiled at the Port Site in Concentrate Storage Buildings 1 & 2 3) Source – Teck Alaska				

Mr. Hemsath reviewed the draft Stakeholder Relationship chart which shows the pieces and players that are involved or impacted around the Red Dog Mine. Through AIDEA's ownership, future uses are impacted by what happens at Red Dog as well.



Discussions ensued regarding the various agreements involved with the DMTS.

In brief, below is investment and financial information:

Slide 22 -- 6/30/2009 AIDEA Financial Information		
	Initial Investment	6/30/2009 Balance
Original Project	\$180,188,000	\$155,306,000
Expansion Project	\$84,846,000	\$77,403,000
Total	\$265,034,000	\$232,709,000

Note: Net investment as of 6/30/2009 is computed per mechanism established in DMTS Agreement; amounts differ from netbook value per financial statement.

- AIDEA financed the original DMTS and expansion using a combination of cash and bond proceeds
- \$101,335,000 of bonds are currently outstanding
- Teck payment is unrelated to AIDEA debt
- DMTS comprised approximately 23% of AIDEA's assets (6/30/2008); excluding Snettisham

Slide 23

Alaska Industrial Development and Export Authority
DeLong Mountain Transportation System
MAA, Zinc Price Escalator, Contingent Tonnage Fee and Reserve Account Activity - Calendar years 1998 through 2008
(Dollars in Thousands)

Minimum Annual Assessment (MAA)								Reserve Account Activity				
Calendar Year	"Fixed"	Tonnage Sensitive	Total	Zinc Price Escalator	Contingent Tonnage Fee	Supplemental MAA	Total Teck Payments	Received by AIDEA	Deposits to Reserve Account	Interest Earned	Releases To Teck	Year End Reserve Balance
									Tonnage Sensitive MAA	Contingent Tonnage Fee		
1998	11,953	3,153	15,106				15,106	11,953	3,153			3,153
1999	11,953	5,146	17,099			4,997	22,096	16,950	5,146		150	8,449
2000	11,953	4,382	16,335			5,176	21,511	17,129	4,382		518	13,349
2001	11,953	4,424	16,377			5,716	22,093	17,669	4,424		962	18,735
2002	11,953	6,023	17,976			5,716	23,692	17,669	6,023		862	23,038
2003	11,953	7,924	19,877		458	5,716	26,051	17,669	7,924	458	518	(8,729)
2004	11,953	6,564	18,517		9,670	5,716	33,903	17,669	6,564	9,670	287	(16,673)
2005	11,953	7,049	19,002		9,792	5,716	34,510	17,669	7,049	9,792	522	(17,417)
2006	11,953	6,479	18,432		8,866	5,716	33,014	17,669	6,479	8,866	1,265	(16,378)
2007	11,953	8,051	20,004		10,196	5,716	35,916	17,669	8,051	10,196	1,302	(19,637)
2008	11,953	9,008	20,961	2,330	12,691	5,716	41,698	19,999	9,008	12,691	1,072	(22,860)
	131,483	68,203	199,686	2,330	51,673	55,901	309,590	189,714	68,203	51,673	7,458	(104,296)

Note:
Tonnage Sensitive MAA shown in year received
Zinc Price Escalator shown in year received; relates to prior year prices
Contingent Tonnage Fee shown in year received; relates to prior year throughput

Chairman Galvin stated he would like to see further discussions be had between the parties. He asked the Northwest Arctic Borough (NWAB) how they would like to see this discussion progress.

Mayor Whiting stated they would like to see a staff working group formed between AIDEA and the NWAB to continue discussions. Eventually, I would love to see us all sit at the same table. We would like to have negotiations with our staff and with yours and talk about the details, the legalities, the contracts, and eventually, work closely with all the parties, NANA, Teck Cominco, AIDEA, and NWAB.

The borough would like to move toward having a permanent fund, a sustainable fund. Right now we operate on a year to year basis. We set a reserve fund of \$10M for the next year. We can't do that, so we are working on a sustainable fund just like you are so that we can operate into infinity. If the Red Dog Mine closed today we have one good year to operate, minus a lot of the

services. So we have to have, we are shooting for a \$200M sustainable fund so that we could live off the interest to operate the basic services that we need. We are negotiating with Teck Cominco as well. Just to expedite the process of time, it would be good for all parties to meet together and negotiate so that we could all get what we need to get done.

Chairman Galvin stated that, at this point, the Board is not in a position to say that we are ready to enter into any sort of negotiations. We can, however, dedicate staff to work with you, Teck, and NANA to make sure that we all are at a common understanding of the nature of our relationship. Right now, based upon the dialogue that we have had, your office has come in and characterized cash flows and history in a way that is not directly in line with what we just heard from our staff. The Board wants to make sure that we give our staff and your staff the opportunity to talk and come back with a common understanding and put it in the context of what actually is being requested.

Mayor Whiting thanked the Board for their time.

Chairman Galvin requested AIDEA identify staff to work directly with staff of the NWAB. He stated it would be up to AIDEA and the NWAB to decide to what extent they wanted to include Teck and NANA in the discussions. He stated the purpose of the discussions would be to talk about the nature of the relationship, the nature of the cash flows, and what is expected, what is the nature of what the borough is asking of AIDEA and put it in the context of what you've heard.

Mayor Whiting stated she is looking forward to working closely with AIDEA staff and in changing the "releases to Teck" to say "released to the Northwest Arctic Borough."

Walter Sampson stated that he has some issues and questions with regard to some of the numbers that is on the document. He would like to sit down with NANA and Teck to see where those numbers really are. Originally, as he understood it, it was when Teck Cominco and AIDEA put the agreement together NANA was not part of that process in regard to being part of the negotiating team. As the land owner, as a resource owner, he has problems with that.

Chairman Galvin stated that all that can be done now is to make sure that we are on a common framework of what is in place.

Walter Sampson stated they would like time to review all of the documents and talk amongst themselves, then come back to AIDEA staff and sit down to go over some of the parameters that have been discussed.

Chairman Galvin stated their primary contact at AIDEA is Ted Leonard and they should contact him when they are ready to have any discussions.

- **Skagway Ore Terminal**

Mr. Hemsath stated that as part of the America Recovery and Reinvestment Act, the Stimulus Funds, there is a component specifically related to ports and intermodal ports. That gives us an opportunity to expand and move Skagway's port towards full employment, and at the same time we can follow along with that and potentially build out the ore facility and make some improvements so that we can be more accessible to some of the opportunities to move product. It is our intent to work with Skagway on this application.

Mr. Cochran, Mayor-Municipality of Skagway, stated they are working on what they call the Gateway Project and the main goal is to basically return Skagway to its former position as the preferred port for goods, services and people to and from the Yukon Territory. We have been actively involved with the Yukon Government and with the mining industry over the last couple of years. We go to the Mineral Roundup, which is the annual conference in Vancouver every year. We have talked directly with mining companies and as you are all aware, Sherwood Copper is presently operating out of the terminal facility. There are probably 20 mines right now in various aspects of permitting and construction. A couple mines are very close to production and one may come into production as early as next fall. What we are trying to do is accommodate the mining industry, but at the same time, there are several other aspects of this project. One is the reduction of greenhouse gas emissions if we go with barge service.

He referred the Board to the color-coded copy of an aerial photo. The orange is the AIDEA facilities at this point. Blue is a new heavy-duty intermodal dock. Green is the floating rail barge, which would be a roll-on roll-off barge ramp.

The aspect that we're looking at is freight from Prince Rupert to Skagway on railcars. You could off load them and use the White Pass railroad to continue on. Right now 95% of freight that goes to the Yukon is trucked over the Alaska Highway. The rail component would not be immediate. That would be a little bit further down the road, but at this point we could still bring in containers, whether they are on a railcar or just regular flats and truck them over the Klondike Highway to the Yukon. Everything comes up the Alaska Highway. A truck can only carry a couple of containers, so if you barge it to Skagway, you're only talking 110 miles. Your greenhouse gas emission footprint has just been reduced immensely. The same thing goes with all the mines up in the Yukon. It's almost a no-brainer on savings and the reduction of greenhouse gases.

The Southeast Conference has a subcommittee that works with the port of Prince Rupert for freight, mainly in the seafood industries. But, that could be something that could tie in. We talked with ANGDA yesterday and some of their plans for propane would fit in nicely with us. This is an economic development project. You are probably all aware that Skagway is a goldrush historical town and we have come to rely on tourism for our economy. It's done very well in providing a lot of revenue for our community, but right now the cruise industry is talking about pulling out. They're looking at three vessels for sure that will not come in 2010, which is a total of about 93,000 cruise ship passengers. We're looking to diversify the Skagway economy, get freight rolling again and get the mining resources rolling through. Tourism brings in revenue, but it doesn't bring in families. What it does is it brings in about 2000 college kids every summer that want to work and then want to party, and when they leave, the money leaves. Our school enrollment has dropped consistently over the last ten years. We want quality jobs, year-around jobs that will help build our community and we believe this is the way to do it.

We think this is a good project and whether or not we qualify and receive the Tiger Grant funds, this project will not go away. We will continue to push this project through by whatever avenues we can.

Mr. Paul Taylor, Pacific Contract Company Engineer, stated as the board of a bank you want to know about our customers; you want to know about our revenue stream; you want to know how solid our capital cost estimates are, and operating costs; and you want to know a little bit about our business plan. With regard to tourism, we have about 800,000 tourists that come to Skagway each year on cruise ships; the revenue stream is tourists times the service fee.

Inbound cargoes are about the level of 30,000 tons a year; that's tonnage times tariff. The whole of the Yukon is about 60 million gallons of petroleum product a year. Skagway, in the past, has handled more than half of that fuel; it's a little bit less than half of that now. Those are the principal customers; those are the principal revenue streams.

The entirety of the project is now sitting at \$89 million dollars. This project is divisible; it is all segmented. Depending upon the interest of the customer and the level of funding we're able to get from the Tiger Grant, we can build any combination of pieces of the project. One does not depend upon the other. As far as our business plan goes, there has been a stream of studies and reports starting with the Alaska-Canada rail link and now focused on our 25-page Tiger Grant. We will submit a quality application on September 15, 2009. The best news of all is we have hired KPMG to prepare the cost-benefit ratios as required by the grant conditions. We received the first piece of KPMG's work while on this trip and are using the discount rates as prescribed in the Tiger Grant; we are sitting at a cost benefit ratio of five.

Mayor Cochran stated there is a lot of support in Skagway for this project.

He said the role of AIDEA would be as a co-applicant, but as a tier 1 member. A Memorandum of Understanding would be in the best interests of AIDEA and the Municipality of Skagway to outline exactly how we would deal with the grant funds. At this point we are asking for \$69 million in grant funds.

Mayor Cochran stated there is no requirement for AIDEA funding. The draft document includes money from White Pass, AIDEA, and the Yukon Government, to make the grant application look that much more admirable.

Chairman Galvin stated that the Board, at this time, is not in a position to commit any additional funds to provide matching monies; however, it is willing to grant approval to participate in the grant application.

Discussions ensued regarding the America Recovery and Reinvestment Act.

MOTION: Commissioner von Scheben moved to approve AIDEA's participation as a co-applicant with the Municipality of Skagway in a Tiger Grant application. Seconded by Commissioner Notti. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Messrs. Galvin, Winther, Felix, Notti and von Scheben voting yea.

9. NEW BUSINESS

9A. Resolution G09-05, In Appreciation of Mr. John Kelsey

Chairman Galvin stated Resolution No. G09-05 is in appreciation of John Kelsey, recognizing and acknowledging his efforts, both to AIDEA as a board member and in his capacity as Chair.

MOTION: Commissioner Notti moved to approve Resolution No. G09-05. Seconded by Mr. Winther. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Messrs. Galvin, Winther, Felix, Notti and von Scheben voting yea.

9B. Resolution G09-06 Transfer between AIDEA Revolving Fund and Small Business Economic Development Revolving Loan Fund

Mr. Leonard said this is a program that AIDEA has, which is a Small Business Economic Development (SBED) Revolving Loan Fund. Kenai also has had the same type of revolving loan fund from the federal economic development administration and they have decided that since they have not been doing any loans that they were going to stop the program. When they made the decision to end their loan program they approached AIDEA regarding any interested in accepting the transfer of those federal funds to AIDEA for that program. This program is actually run through the Department of Commerce, Community and Economic Development for small businesses and economically distressed areas. There is a matching requirement of 25% so in order to get the approximately \$230,000 in funds, we would have to transfer into that fund, subject to appropriation, an additional \$75,000. The resolution states up to \$85,000 because there is also interest that has been building so the exact amount is not known. This resolution would allow AIDEA to accept the grant funds and also transfer monies from our revolving fund.

Mr. Bjorkquist stated there is no authority to put money into the other fund without an appropriation. There is authority for accepting federal grant monies and putting them in, there just is not authority for transferring monies other than by appropriation.

In response to Board questions, Ms. Fisher-Goad stated it is not a state general fund transfer; it's a transfer of AIDEA revolving funds. It would probably be a language section of a bill having the transfer of AIDEA corporate receipts to the SBED fund. We do not anticipate any issue on this at all.

Mr. Leonard stated this is a small grant but we do not want the federal funds to lapse and go out of state. If we take the funds then we can put it into our revolving loan fund, which is the same type that Kenai had, and enhance it. It is not a large amount of money, but it increases our capacity to do loans.

Discussions ensued as to the history of the funds. Mr. Winegar said the program started with a small federal grant in 1987. Since that time we have been able to recapitalize it over the years by getting additional grants, so right now our total capital base is up around \$8.5 million dollars. We've got about \$7 million on the books and approximately \$1 million in cash that is available to make loans. It's been an ongoing program: a revolving fund. All of the interest that is earned on the cash plus the interest on the loans stays in the fund and it has built up since 1987 from approximately \$400,000 up to the \$8.5 million.

Mr. Leonard: It's been a good program; over 116 loans for approximately \$13 million dollars and the program has created over 635 jobs and retained another 350.

In response to Board questions, Ms. Walker stated this should not affect the dividend to the state. It will appear on the financial statements but as a transfer from one investment account into another.

Resolution No. G09-06 was amended by deleting the word "loan" from the title and from Section 2 between the words "revolving and fund."

MOTION: Commissioner von Scheben moved to approve Resolution No. G09-06, as amended. Seconded by Mr. Winther. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Messrs. Galvin, Winther, Felix, Notti and von Scheben voting yea.

EXECUTIVE SESSION

MOTION: Mr. Felix moved to go into executive session to discuss Healy Clean Coal Project litigation and negotiation issues, and potential AIDEA legislation. Seconded by Commissioner von Scheben. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Messrs. Galvin, Winther, Felix, Notti, and von Scheben, voting yea.

EXECUTIVE SESSION – 4:16 p.m.

The Board reconvened its meeting at 4:47 p.m.


Roll call was taken and a quorum was established. Chair Galvin advised that the Board had not taken any formal action on the matters discussed while in Executive Session.

10. BOARD COMMENTS

Chairman Galvin welcomed new board member Mr. Michael Felix.

11. ADJOURNMENT

There being no further business of the board, the meeting was adjourned at 4:49 p.m.



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

Attachment: Comments from Robert Sheldon, Arbor Capital Management

Good Morning Chairman Galvin and members of the Board. Thank you for the opportunity to provide my comments.

As a life long Alaskan and businessman I find myself increasingly fascinated by AIDEA's endeavors through its programs and projects. A number of years ago the late, and AIDEA's 1st Executive Director, Dave Rose took me aside to familiarize me with how and why AIDEA as well as the other alphabet agencies came to be.

He taught me how AIDEA proved that there was a role for state lending involvement because some good loans were too large for many banks, some projects only feasible with lower interest rates, and that often the longer term portion of many large loans were simply not going to be financed by banks without AIDEA's involvement. He insisted that the key to breaking these log jams was to use the state's access to bond markets, its credit rating, and tax free financing. He taught me that when the business environment was brutal and credit was extremely tight, (sound familiar?), AIDEA was often the lynch pin in providing any funds at any price, even to the most creditworthy projects. He taught me how AIDEA became the most powerful shield against a drive to use the Permanent Fund as a development bank – essentially absorbing the risk of state lending and deflecting the political pressure created by what Mr. Rose called the 'loan crazies' and 'plunderers'. Mr. Rose was particularly forceful in his belief that because of its broad political, legislative, and operational successes, AIDEA has grown over the years to actually enhance the State of Alaska's credit rating. Finally, he taught me that AIDEA is unique among state development finance agencies: While most only issue bonds, AIDEA issues bonds, has a loan participation program and owns & leases commercial infrastructure. This is important because using its clout, AIDEA has been able to receive compensation for its value additive efforts that are further reinvested to perpetuate its goals.

Of late I've become newly interested in the attention that the DeLong Mountain Transportation System (DMTS) at the Red Dog Mine has received. With this attention, I see a tremendous opportunity to educate the public on AIDEA's beginnings, importance, and value. After all, without AIDEA's investment of over \$267 million in the DMTS Red Dog Mine would not have been developed since neither the mining company, nor the deposit owner, could finance the port & road and the mine. This is the textbook case for what Dave Rose taught me that AIDEA was created.

With today's DMTS agenda item, I am assuming that there may be percolating interest in a sale or diversion of the DMTS revenue stream from the State's general fund to a local government entity. If so, please consider the following:

Is the disposition of an asset to a borough with a population of 7,200 people worth the broad decline in AIDEA's operating flexibility for lending to the State's nearly 700,000 people? Is it worth weakening one of the walls that stand

between the 'loan crazies' & 'plunderers' and the Permanent Fund? Is it worth risking both AIDEA's and the State's credit rating that has taken three decades to build? Is it worth the risk of politicizing AIDEA's mission?

I note that DMTS revenue streams from user fees constitute a major portion of annual dividends that AIDEA pays to the State.

If a sale is prudent & necessary why not put it out for competitive bid? I understand the recent proposed price was less than 50% of net asset value as calculated by AIDEA's external financial analyst. This proposed purchase offer apparently came with an economic assessment of project value by the same consultant who provided AIDEA with the economic assessment that the Alaska Seafood International processing plant was economically feasible.

Either diverting the DMTS revenue stream or selling the DMTS for less than fair market value would likely send the message that AIDEA's assets and revenues may be plundered for political reasons. An argument could be made that any local government which has an AIDEA project in its region could claim that AIDEA should give it to them or sell it at a less than fair market value: e.g., Skagway (Skagway Ore Terminal), Ketchikan (Ketchikan Shipyard), Anchorage (Fed-Ex Hangar), Juneau (Snettisham Hydroelectric) or Healy/Fairbanks (Healy Clean Coal Project).

Thank you.

Robert Sheldon
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