Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
November 22, 2010
Anchorage and Juneau, Alaska; Rancho Mirage, California

1. CALL TO ORDER

Chairman Patrick Galvin called the meeting of the Alaska Industrial Development and Export Authority to order on November 22, 2010 at 11:26 a.m.

2. ROLL CALL: BOARD

A quorum was established.

Members present: Chairman Patrick Galvin (Commissioner, Department of Revenue); Mike Felix (Public Member); and Robert Sheldon (Public Member).

Members participating via conference call: Susan Bell (Commissioner, Department of Commerce, Community & Economic Development) from Juneau, AK; and Vice Chair John Winther (Public Member) from Rancho Mirage, California.

3. AGENDA APPROVAL

The agenda was approved as amended.

4. ROLL CALL: STAFF, PUBLIC

Staff present in Anchorage: Ted Leonard (Executive Director); Chris Anderson (Deputy Director-Commercial Finance); Sara Fisher-Goad (Deputy Director-Operations); James Hemsath (Deputy Director-Development Finance); Valorie Walker (Deputy Director-Finance); Brenda Applegate (Controller-AIDEA); Mike Catsi (Business Development Officer); Karsten Rodvik (External Affairs Project Manager); Chris Rutz (Procurement Manager); Sherrie Siverson (Executive Assistant); and May Clark (Administrative Assistant).

Others present in Anchorage: Brian Bjorkquist and Mike Nave (Department of Law); Ken Vassar (Birch Horton Bittner & Cherot); Sharon Wright (Northrim Bank); Rich Wilson (Alaska Ratepayers Association); Robert McNaughton (Alaska USA Federal Credit Union); Elizabeth Stuart and Corrine Fiedler (KPMG); Derrick Chang (3000 L St. LLC); Jim Watt, Scott Bernstein, and Curtis Burton (Buccaneer Energy/Buccaneer Alaska, LLC); and Steve Sutherlin (Strategic Action Association).

Participating via teleconference: Eric Lidjii (Petroleum News); Joe and Maria Fang (3000 L St. LLC.).

5. PUBLIC COMMENTS

There were no public comments.

6. OLD BUSINESS

There was no old business.

7. NEW BUSINESS

7A. FY2010 AIDEA Financial Statements

Ms. Walker said that no action is required by the Board and introduced Elizabeth Stuart from KPMG who provided an overview of the financial statements.

Ms. Stuart served as the lead audit engagement partner for the AIDEA audit. Several reports are included in the Board packet. The Letter to the Board of Directors summarizes the audit and responsibilities of the auditors. The accounting policies followed by AIDEA are described in the financial statements. There were no changes to current policies and no new policies were adopted this year.

Key areas of the audit relate to management judgments and estimates regarding the Healy Clean Coal Project and the allowance for loan losses. KPMG evaluated management's estimate relating to the carrying value of the Healy Project. If the Authority expects that it won't realize its investment in the recorded value of the Healy Project, it is required to be written down to estimated fair value. The carrying value is about $46 million at June 30 and management believes that the carrying value is not impaired, meaning the Authority will be able to recover that amount through the future sale. Management's estimate was evaluated and believed to be reasonable.

The other issue related to the Healy Clean Coal Project is evaluating whether the asset should be reported as an investment available for sale. Accounting rules require that certain criteria must be met in order to classify an asset as available for sale. One is the expectation that a sale will close within one year. After discussion with management, it is reasonable that this asset not be classified as available for sale primarily because of the one year criteria.

In response to a question from the Board, Ms. Stuart said if an asset is classified as available for sale, the carrying value should be the book value less the cost of sale. It stops being depreciated, which is the most significant impact of changing the classification. From the time an asset is reclassified, depreciation expenses would no longer be recorded.

Mr. Felix asked about the original investment.

Ms. Walker said the original investment was approximately $285 million and included State and Federal grants and other amounts. There was a write-off of the capital grants of approximately $140 million. Then there was another write-down when we took it down to what we thought we could sell it for in the mid 2000's.

Mr. Felix asked if the carrying value is now more closely related to what the fair market value is of the asset and Ms. Walker said she believes the sales price is actually a little higher but assets are not written up.

Mr. Sheldon asked if 2014 is the due date of the current arrangement.

Mr. Bjorkquist stated that under the current arrangement, AIDEA has certain rights at 2014 which it can elect or choose not to elect to pursue, regarding the sale agreement and salvage of the facility.

Ms. Stuart added the other significant estimate relates to the allowance for loan losses, which was about $9 million on the loan portfolio of $388 million. KPMG evaluated the management process for developing the allowance and believes it to be reasonable.

KPMG evaluated internal controls throughout the audit and didn't find any material weakness or significant deficiencies that they are required to report to the Board.

The first five pages of the basic financial statement consist of management's discussion and analysis. KPMG doesn't conduct an audit of the discussion and analysis, but does read it for consistency with the financial statements and their understanding of activities.

An unqualified opinion by KPMG is on page six. There were no matters of concern within the financial statements. The opinion is followed by the financial statements, then footnotes which provide further information about accounting policies as well as matters contained in the financial statements.

Mr. Sheldon questioned an item on page 22 of the basic financial statements. A footnote mentions the total of unrated investments may not exceed 5% of the investment manager's portfolio value and the unrated investments of a single issuer may not exceed 2% of the investment manager's portfolio value. However, on the following page is a table which lists not-rated securities at 25%.

Ms. Walker said the 5% in the policy relates to corporates. It doesn't relate to GSE's. Staff plans to review the investment policy at a future work session for new Board members, but would be happy to discuss with Mr. Sheldon before then.

Mr. Sheldon said the GSE's are in conservatorship right now and they are in a kind of never-land. He asked about the impact if they went into receivership. Ms. Stuart said they would evaluate that. Investments are all reported at fair value in the financial statements and so receivership might effect that valuation.

Mr. Sheldon asked when a work session for new board members will be scheduled. Mr. Leonard said staff is waiting for the Governor's office to appoint two additional Board members before work session dates can be confirmed.

7B. Resolution No. G10-21, Conduit Revenue Bonds – Fairbanks Eye Clinic

Mr. Leonard introduced Mr. Ken Vassar, AIDEA bond counsel, who will provide an overview of Resolution G10-21. This resolution requests the Board approve an issue of recovery zone facility bonds in the amount of not to exceed $1 million. The bond proceeds will be used for the rehabilitation of an existing building in Fairbanks. Mr. Leonard informed the Board that approximately $26 million of AIDEA's $400 million rolling 12 month cap has currently been utilized.

Mr. Vassar said this is the fourth recovery zone facility bond issuance. The borrower is CD& E Company, LLC. The project is the rehabilitation of an existing building to accommodate the Fairbanks Eye Clinic. The size of the bond is not to exceed $1 million. The resolution authorizes AIDEA to sell the bond with the related loan agreement. This is an issue of conduit revenue bonds which do not affect the Authority's credit and are not backed by the Authority's assets. Conduit pass-through financing allows AIDEA to create tax-exempt interest for the bank which leads to a better interest rate for the borrower. The documents are in substantially final form, but edits may be required as the closing date nears, sometime before December 31, 2010.

Mr. Leonard added that with the approval of this resolution, AIDEA will have issued $27 million of the $135 million recovery zone facility bond allocation.

MOTION: Mr. Felix moved to adopt Resolution No. G10-21. Seconded by Commissioner Bell. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Mr. Sheldon, Mr. Winther, Mr. Felix, Commissioner Bell and Commissioner Galvin voting yea.

7C. Eligibility Resolution No. ER10-17, Olympic Investments LLC – Mat-Su Shopping Center and Gas Station Project

Mr. Leonard said Eligibility Resolution No. ER 10-17 is for an issuance of recovery zone facility bonds in the Mat-Su area for a shopping center and gas station project.

Mr. Vassar said eligibility resolutions do not commit the Authority to issue bonds. However, it is necessary for the Authority to express official intent to incur debt so that costs of these projects, as they are incurred or paid, will remain eligible for reimbursement from tax-exempt bond proceeds. This project is for a shopping center in the Mat-Su Borough and is eligible for tax-exempt bond financing because of the Recovery Act. This will be a recovery zone facility bond if it is issued before the end of the year.

In response to a question from the Board, Mr. Vassar said staff will coordinate with the borrower, their attorney and the banker to establish a schedule in order to issue bonds before the end of the year. This Eligibility Resolution is for a maximum of $12 million. Because this is a shopping center/gas station, this particular project lends itself to the special admonition that the borrower agrees not to include suntan facilities, liquor stores, hot tub facilities, and massage parlors in the shopping mall.

A discussion ensued and Mr. Vassar confirmed that this is not a guarantee that bonds will be issued, but if they are, a date is set as to when certain costs are able to be included in the financing. If we get to a definite closing date, we will come back to the Board for the authorization to proceed.

MOTION: Mr. Felix moved to adopt Eligibility Resolution No. ER 10-17. Seconded by Mr. Winther. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Mr. Sheldon, Mr. Winther, Mr. Felix, Commissioner Bell and Commissioner Galvin voting yea.

7D. Loan Resolution No. L10-09 – 3000 C Street, LLC.

Ms. Anderson provided an overview of Loan Resolution L10-09. This is for 3000 C Street, LLC. The gross loan amount is $24 million. AIDEA is being asked to participate in the amount of $20 million. A typographical error in the loan request says the originator is FNB, but Alaska USA is the lead lender. They will do a 15-year loan and AIDEA's term is 25 years. The guarantors are Joe and Maria Fang. This is debt refinancing as well as equity extraction for tenant improvements. The borrower is refinancing in order to take advantage of both longer term and lower rates. The balance of the loan proceeds will be used to fund tenant improvements at 188 West Northern Lights and the 4th Avenue Theater, owned by the Fangs.

Permanent employment will be unaffected. However, construction employment is estimated to be 36 temporary jobs. Derrick Chang manages the property. AIDEA is taking a first lien on an office complex and covered parking garage constructed in two phases, in 1986 and 2002. Located on the corner of C & 31st, the primary tenants are Chenega Corp., BP, and Hudd.

This multi-tenant building was appraised in June 2010 at $33 million, a 72.7& loan to value, and the economic life is estimated at 40 years. This is within AIDEA's guidelines. The strength of this credit is that this is well established, well managed Class A office space located in the core commercial midtown area. The major tenants are diversified [Chenega Corp. 24%, HUD 19%, and BP 19%], which, in writing income property, is important. The year-to-date cash flow shows debt-service coverage for the first nine months of 1.44. The average of the previous three years is 1.70 on a full year basis. What may be seen as a weakness is the lack of liquidity due to the high concentration of real estate investments and the kind of business. There are no environmental issues associated with the property.

As of September 30, AIDEA has 11.7% of its statewide portfolio in office buildings, which would increase to 16.2%. In the Anchorage area we are at 9.7% and that would increase to 17.3%. Loan covenants would require the borrower to provide annual financial information. Staff has analyzed this credit and recommends it subject to several conditions, (1) that all leases be assigned to the lender for security purposes (2) that they would be subordinate to the lenders deed of trust, (3) there would be a non disturbance and attornment agreement put into place in substance acceptable to AIDEA and, (4) the lender will certify that funds extracted for the equity extraction would be used on 188 East Northern Lights and the 4th Avenue Theatre.

Mr. Sheldon said he has questions related to the confidential information provided as part of the meeting materials and requested an Executive Session for further discussion.

Mr. Bjorkquist said the topic to be discussed will be the confidential financial information which under AIDEA statue is to be confidential. Information provided of financial plans and trade secrets and other commercial proprietary information is confidential. Under the open meetings act, because that is to be kept confidential by law, it is a topic appropriate for executive session.

EXECUTIVE SESSION

MOTION: Mr. Sheldon moved to go into Executive Session to discuss confidential financial information. Seconded by Mr. Felix. There being no discussion, the question was called and the motion passed unanimously.

EXECUTIVE SESSION – 12:01 p.m.

The Board reconvened its meeting at 12:32 p.m.

Roll call was taken and a quorum was established.

Mr. Bjorkquist advised the Board that almost everything discussed in Executive Session was appropriate. There was one topic that was appropriate for public discussion which is, there was a discrepancy between the descriptions of the job creation and the public memorandum which says the project includes 36 temporary jobs and a statement in the confidential memo which says there is one full time job and four temporary jobs. That conversation would be appropriate for public session. He also notes there was a very brief discussion of the appraisal, and separately the discussion of appraisals is appropriate for Executive Session under AIDEA statute. This wasn't identified but still feeds into the description. Everything else was appropriate for Executive Session.

Ms. Anderson said the discrepancy was in the original write-up which noted that there was one full time position added and four temporary. The memorandum indicated there would be 36 temporary jobs. She assumes the 36 jobs are associated with the construction tenant improvements on 188 Northern Lights and 4th Avenue Theatre. The loan would facilitate those jobs but they are not directly associated with the subject property.

MOTION: Mr. Winther moved to adopt Loan Resolution No. L10-09. Seconded by Mr. Felix.

MOTION: Mr. Sheldon moved to amend the motion and request additional collateral.

In response to a question from the Chair, Mr. Bjorkquist said this motion may be implemented by not approving the resolution. Staff could have additional discussions with the bank and borrowers and request additional collateral. Mr. Bjorkquist said that in order for this to work, instead of amending the motion to approve the resolution, that the resolution should be defeated. In order to implement an approved resolution with a contingency, it would have to be very specific as to what that additional contingency would need to be before going forward with the loan.

Mr. Sheldon said if there is no second to his motion, it would fail and it would not be necessary to go to that step.

Chair Galvin asked if there was a second to the motion to amend. Hearing none, the motion fails.

Mr. Sheldon's motion died for lack of a second.

Chair Galvin asked if anyone wanted to speak either in favor or in opposition to the resolution.

Mr. Sheldon said he has discomfort with this loan for a number of reasons beginning with the resulting AIDEA portfolio concentration in Anchorage as well as office space; specific items discussed in Executive Session relating to the borrower and its structure; the eventual zero impact on long term job creation; difficulty in actually moving a property of this size, should the economy falter; in other items addressed in Executive Session, as well as difficulty in legally isolating assets or encumbering assets across the borrower's holdings. Mr. Sheldon stated he believes there needs to be additional collateral.

Mr. Felix asked, "If BP renewed their lease, would that alleviate your concern?" Mr. Sheldon replied, "Absolutely."

Mr. Winther said he supports this motion. Mr. Fang has a 30-year record and believes he is substantial enough to overcome any adversity in the markets.

MOTION: Mr. Winther moved to adopt Resolution No. L10-09. Seconded by Mr. Felix. The question was called and a roll call vote was taken. Mr. Sheldon voted nay and Mr. Winther, Mr. Felix, Commissioner Bell and Commissioner Galvin voted yea. The motion passes.

7E. Resolution No. G10-23 Cost Reimbursement Agreement – Buccaneer Alaska, LLC
7F. Eligibility Resolution No. ER10-16 Kenai Offshore Ventures, LLC – Offshore Jack-up Rig Project

Mr. Leonard provided a brief description of the process AIDEA goes through when looking at a potential new development project.

Representatives from Buccaneer Energy and Buccaneer Alaska will provide a general presentation regarding the project.
Present are Jim Watt (COO Buccaneer Alaska), Scott Bernstein, (Executive Vice-President, Corporate Finance), and Curtis Burton (Managing Director Buccaneer Energy/Buccaneer Alaska, LLC). Buccaneer Alaska and Buccaneer Resources are subsidiaries of Buccaneer Energy.

Mr. Watt provided an overview and PowerPoint presentation of Buccaneer Energy's Cook Inlet jack-up rig proposal, which involves AIDEA's participation as a co-owner of a drill rig to be used for exploration in Cook Inlet. A new holding company will be formed called Kenai Offshore Adventures, LLC. This company will acquire a rig and then lease it to an operating company which will have the responsibility to operate and market the rig.
Mr. Watt discussed Buccaneer's interest in AIDEA's Recovery Zone Facility Bonds program as a way to would help the project move forward.
Mr. Watt discussed Buccaneer's drilling plan.

Mr. Watt discussed job creation.

Mr. Watt discussed operational structure and the advantage to purchasing a rig in a depressed market.

Mr. Watt discussed purchase scenario and timeframe.

In response to questions from the Board, Mr. Hemsath said the resolution approves a Cost Reimbursement Agreement not to exceed $150,000 and authorizes AIDEA to proceed with due diligence review.

In response to a question from the Chair, Mr. Leonard said an Executive Session will provide an opportunity for Board members to gain more specific information on the status of negotiations.

Mr. Bjorkquist clarified that discussions will include financial business plans, trade secrets, market surveys and marketing strategy information and other commercial proprietary information that is required by AIDEA statue to be kept confidential. Therefore it is appropriate for an Executive Session under the open meetings act.

MOTION: Mr. Felix moved to go into Executive Session to discuss confidential proprietary information. Seconded by Mr. Sheldon. There being no discussion, the question was called and the motion passed unanimously.

EXECUTIVE SESSION – 1:09 p.m.

The Board reconvened its meeting at 2:42 p.m.

Mr. Felix left to attend another meeting. A roll call was taken and a quorum was established. Mr. Bjorkquist advised that the Board stayed on topic and everything was appropriate for Executive Session.

MOTION: Commissioner Bell moved to adopt Resolution No. G10-23 and Resolution ER 10-16. Seconded by Mr. Sheldon. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Mr. Sheldon, Mr. Winther, Commissioner Bell and Commissioner Galvin voting yea. Mr. Felix absent.

The Board took a brief recess at 2:43 p.m. and reconvened at 3:26 p.m.

7G. Skagway Ore Terminal Update

Staff requested the Board go into Executive Session to discuss confidential business related to the Skagway Ore Terminal. Mr. Bjorkquist stated the topic to be discussed will be negotiation strategies related to Skagway Ore Terminal.

MOTION: Mr. Sheldon moved to go into Executive Session to discuss negotiation strategies related to Skagway Ore Terminal. Seconded by Commissioner Bell. There being no discussion, the question was called and the motion passed unanimously.

EXECUTIVE SESSION – 3:26 p.m.

The Board reconvened its meeting at 3:57 p.m.

Roll call was taken and a quorum was established. Mr. Bjorkquist advised that the Board stayed on topic and everything was appropriate for Executive Session.

8. DIRECTOR COMMENTS

Mr. Leonard referred members to their Board packets for loan activity and delinquency reports, and project fact sheets. Board members may contact Ms. Valorie Walker if they have any questions regarding the September 30, 2010 Callan Report.

Mr. Leonard informed the Board that Chris Anderson, Deputy Director-Commercial Finance, was nominated for the YWCA Women of Achievement Award.

The next Board meeting is scheduled for Friday, December 3, 2010 at which time staff will present a recommendation for the FY2012 Dividend payment to the State. Board members will be polled for their availability to attend an additional meeting related to a bond sale and an update on the proposed Buccaneer project.

Mr. Sheldon requested a brief update on the Lik Deposit Transportation System Project (LDTS).

Mr. Hemsath said Zazu Metals Corporation ("Zazu") has issued two reports related to the port and road. Zazu indicated they are ready to move to the first stage of due diligence and are prepared to pay the reimbursement agreement if necessary. An RFP will be issued within a few weeks. AIDEA will look for a contractor to evaluate what Zazu is proposing, specifically the magnitude of the deposits and the modifications to the port, the new road and the road tie-in.

In response to a question from the Board, Mr. Hemsath said that staff will be executing a previously approved reimbursement agreement. He will provide updates on the project at future Board meetings. The Red Dog mine had a good season, shipping approximately 1.4 million wet metric tons of ore. There was no force majeure and no weather issues this season. The price of zinc is oscillating around $1.00.

Mr. Sheldon asked if the transition has been to go from one deposit to the new, or is there still residual in the other deposit that they are blowing up.

Mr. Hemsath said he does not know when they will officially close the other pit and move, but technically it was seamless from the mining perspective. Ms. Walker added that the official statement says the main pit will be depleted in 2011.

9. BOARD COMMENTS

Chairman Galvin requested that a new Board Chair be named at the close of the December 3, 2010 meeting.

10. ADJOURNMENT

There being no further business of the Board, the meeting was adjourned at 4:04 p.m.

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