Alaska Industrial Development and Export Authority

BOARD MEETING MINUTES

December 3, 2010

Anchorage and Juneau, Alaska

1. CALL TO ORDER

Chairman Patrick Galvin called the meeting of the Alaska Industrial Development and Export Authority to order on December 3, 2010 at 10:30 a.m.

2. ROLL CALL: BOARD

A quorum was established.

Members present: Chair Patrick Galvin (Commissioner, Department of Revenue); Susan Bell (Commissioner, Department of Commerce, Community & Economic Development); Mike Felix (Public Member); Robert Sheldon (Public Member); Vice-Chair John Winther (Public Member).

3. AGENDA APPROVAL

Chair Galvin requested item 7A to be moved to the end of the agenda. Mr. Sheldon asked for a summary of the loan background as each item is presented.

The agenda was approved as amended.

4. ROLL CALL: STAFF, PUBLIC

AIDEA MEETING

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); Leona Hakala (Loan Officer); Karsten Rodvik (External Affairs Project Manager); Chris Rutz (Procurement Manager); Mark Schimscheimer (Project Manager); Sherrie Siverson (Executive Assistant); Shauna Howell, (Executive Assistant); and Teri Webster (Administrative Assistant).

Others present in Anchorage: Brian Bjorkquist (Department of Law); Pita Benz and Patti Bozzo (Wells Fargo); Tim Bradner (Alaska Journal of Commerce); Pat Clancy (Western Financial Group); Ray Dinger (Northrim Bank); Dana Martens (Public); Rick Maurer (Anchorage Daily News); Howard Nugent and Rick Bess (Valley Utilities); Jan Sieberts (Washington Capital Management); Ben Springer (Public); Ken Vassar (Birch, Horton Bittner & Cherot); and Rich Wilson (Alaska Ratepayers).

Participating via teleconference: Paul Bloom (Goldman Sachs) and Zoya Ponomareva (Alaska Fisheries Development Association)

Listen to the full audio recording of the 12/3/2011 meeting at http://www.aidea.org/boardmin.htm

5. PUBLIC COMMENTS

There were no public comments

6. PRIOR MINUTES – October 20, 2010

Mr. Sheldon asked that that several corrections be made to the minutes and that they be brought back to the board at a future meeting.

7. NEW BUSINESS 10:41:34

7B. Loan Resolution No. L10-08, Tudor Storage, LLC

Mr. Leonard said that Ms. Chris Anderson would provide an overview of Loan Resolution No. L10-08 and answer any questions from board members. Loan Resolution is a request from Northrim Bank for AIDEA to participate 90% in a loan to Tudor Storage, LLC. The total amount of the loan is $8,925,000 and AIDEA's 90% participation would be $8,032.000.

Mr. Sheldon asked who is on the loan committee and who worked on this loan. He requested a tear sheet or coverage page be prepared for the board and the public that includes additional information including the loan committee's decision and how they voted.

Ms. Anderson said Ted Leonard, Bill Phelan, Leona Hakala, Mike Harper, Sara Fisher-Goad, Jim Hemsath, and herself were currently members of the loan committee. She said the write-up is disseminated approximately 48 hours in advance of a meeting to allow loan committee members time to read, review and comment. The meeting is not recorded, but the members approve or decline which is reflected by their signature on the cover page. If a majority of the committee approves, the loan moves forward.

In response to questions from Mr. Sheldon and Chair Galvin regarding legislative changes referencing job creation vs. job retention, Mr. Leonard said the regulations deal with three classes, refinancing, purchase of existing facilities, and construction of new facilities.

Board members and staff discussed job creation vs. job retention. Chair Galvin said that the loan participation program has evolved more towards loan refinancing because that is what is coming in through the door. Mr. Leonard said there is more activity based on where the economy is now in refinancing due to restricted capital over the last couple of years.

Mr. Sheldon said the Authority is tasked with encouraging economic development and general wellness in the State of Alaska. With cash dear, he stated that the Authority should conserve it for uses that create, rather than merely retain, jobs.

There is no cap and Mr. Leonard said that the strategic plan sets a target goal of $100-150 million.

Chairman Galvin said AIDEA is historically very passive with regard to the availability through the market. We wait for people to come to us and identify that it is something they are looking for. Frankly it is an underutilized program from our perspective. We have not been in a position to ration that program for any particular purpose.

Mr. Sheldon said it would be very useful and instructive to the board, as well as for members of the public, to understand what expectations are in the future 24 months and what percentage of that each refinance would take. It would become abundantly clear very quickly that we are using a lot of resources for merely refinancing things. If local commodity prices continue to rise, there will be folks knocking on our doors with real projects with real jobs. He said it would be instructive for the board and the public to have a cover page showing how the loan committee votes and puts things forward as well as where we are in a position for expectations in the forward rolling 24-month period.

Ms. Walker said this is in the Investment Policy.

Mr. Leonard said that at the January Strategic workshop, this will be addressed in addition to a review of portfolio management, where we want to be, and the value of the different items of loan participations.

Chairman Galvin said this is consistent with past discussions where we've tried to keep an eye on what our capacity is for either loan participations or project development and being aware we are potentially eating into that capacity with things we are not managing. The important thing, for whatever historical reason with loan participations, we are not out there soliciting a whole lot. Again, we are waiting for people to come to us. We are in the process of developing the strategic plan. The board has attempted to wrest a little bit more control over which direction we are going with the capacity we have and it is something we need to keep a very close eye on. We aren't necessarily hindering ourselves with the things that are on the table in front of us, but as Mr. Sheldon pointed out, we need to be cognizant of it in the future.

Mr. Sheldon said he felt AIDEA has shifted its qualification for new loans from economic growth and job creation to refinancing and job retention.

Chair Galvin asked if staff noticed this difference from years past. Ms. Anderson said no.

Mr. Sheldon pointed out then that since refinancing is so dear these days that we should be more selective on what we approve and keep the goal of job creation the main factor.

Chair Galvin pointed out that we take a passive approach to the program. We wait for people to come to us and ask us for this loan and therefore this program is under-utilized. Because of that we have not had to ration the program for any purpose. Mr. Sheldon asked staff to provide a summary page with each loan stating expectations for the next 24 months and what percentage amount each refinance would take. He believes that this will show AIDEA spends a great deal on refinancing when these funds could be used for projects that provide job creation.

Mr. Leonard stated that this is one of the things that will be addressed at the strategic workshop in January. Staff will discuss portfolio management, where we want to be, and the value of each loan program.

Chair Galvin said he appreciated Mr. Sheldon's comments. He said Mr. Leonard's statement was consistent with the past. Staff needs to keep an eye out for project development and be aware we are potentially digging into that capacity of things that we do not manage. AIDEA is not out soliciting loan participations. In the process of developing a strategic plan, the board has attempted to wrest a little bit more control over the direction we are going with the capacity we have. It is something we need to keep a very close eye on. He doesn't think we are necessarily hindering ourselves with things that are on the table in front of us, but as Mr. Sheldon has pointed out, we need to be cognizant of it.

Commissioner Bell said we anticipated an orientation for new board members as early as this fall, but now we have two new members and with the change of Commissioner for the Department of Revenue, a third. The orientation has been postponed, so these discussions have been very educational for everybody.

Mr. Felix said at a prior board meeting the board asked staff for a one-page summary of each loan to see where we are relative to our capacities.

Mr. Leonard said this is part of what staff is working on for the January meeting including the metrics and the capacity in the portfolio.

A discussion ensued regarding what the board would like to see and how it would be presented. Mr. Felix suggested a simple dashboard report.

Chairman Galvin asked staff to provide a loan capacity dashboard report as part of the board packet beginning in January.

Mr. Leonard said he would make this part of the Director's comments.

Ms. Anderson reviewed information regarding Loan Resolution No. 10-08 as outlined in the Memo to the Board.

Mr. Sheldon questioned what the true market rate is. In the public materials it was 95% and in the confidential materials 82%. He asked why this newer facility is below the market rate.

Chair Galvin said the existing management has a low occupancy rate. The borrower wants to purchase this facility and put it under new management. It is not a refinance. It is going to be under new management and is there a reason to believe the below average occupancy rate is site or management specific.

Ms. Anderson said it is more management specific. The appraiser goes through a market and income expense analysis. The debt service coverage ratio is based on this analysis. In this case contract rent differs from market rent. That difference between the two is management specific. The owner has had this property for a while, but he hasn't had it long term and I am going to assume he is building up his business.

MOTION: Mr. Winther moved to adopt Resolution No. L10-08 as presented. Seconded by Commissioner Bell. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Mr. Felix, Mr. Winther, Commissioner Bell and Commissioner Galvin voting yea. Mr. Sheldon voted nay.

7. NEW BUSINESS

7C i. Resolution No. G10-16, Adoption of amendments to regulations relating to the Conduit Revenue Bond Program 3AAC.100-.160.

Mr. Leonard provided an overview of proposed regulations changes. Following recommendations in the strategic plan and because there has been a lot of recent conduit bond activity, AIDEA is reviewing its programs, statutes, regulations, and associated fees.

Working with its bond attorney and Senior Assistant Attorney General, staff recognized the need to update and clarify regulations relating to the conduit revenue bond program. The changes include the application process, review by the Authority of the applications, and updates necessary to reflect changes in the internal revenue code. A public hearing was held on the proposed regulations changes. AIDEA received no oral or written comments from the public.

Mr. Winther asked if the regulations changes would affect the way AIDEA is currently doing business. Ms. Walker said this would not change how AIDEA presently operates. The regulations were outdated and this puts in regulation the process that has evolved over the years.

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

7. NEW BUSINESS

7C ii. Resolution No. G10-20, Adoption of amendments to regulations relating to the Loan Participation Program 3AAC.99.205; 3AAC.99.220(g); 3AAC.99.250 (d); 3AAC.99.305; 3AAC.99.320(g); 3AAC.99.350(e)

Mr. Leonard said these proposed regulations changes affect three areas of the Loan Participation Program.

First, this will make the emergency regulations adopted by the Board on September 3, 2010 permanent. Those dealt with how the authority sets rates using a national index.

Second, this resolution clarifies that AIDEA has the option to include the cost of the issuance of bonds to fund a loan, into the loan, instead of estimating and adjusting the interest rate over the time of the loan. Staff believes it is in the organization's best interest that it is included in the loan. If there is a prepayment at a future date, those costs will be covered.

Third is to ensure AIDEA regulations match the loan participation statues, specifically in regard to AS44.88.155(g), which allows the authority to waive certain statutory requirements of the loan participation program when AIDEA intends to own a project or finance a power transmission energy project when it is appropriate and prudent.

This modification would ensure the same parallel language in regulations and allow the board to waive certain regulations that are in statutory language. AIDEA held a public hearing and received no oral or written comments.

Mr. Bjorkquist added that this regulation is to take off the table a potential legal challenge. The statute allows AIDEA to waive or modify those statutory requirements. What could be read as an inconsistent regulation probably doesn't preclude that from happening, but somebody can claim that the regulations requires the same thing in the statue - that you have the express authority to waive or modify precludes you from waiving or modifying that provision. This regulation takes off the table a legal challenge to that type of action.

MOTION: Commission Bell moved to adopt Resolution No. G10-20 as presented. Seconded by Mr. Winther. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Mr. Felix, Mr. Sheldon, Mr. Winther, Commissioner Bell and Commissioner Galvin voting yea.

7D. Valley Utilities, LLC

7D i. Loan Resolution No. L10-10 Valley Utilities, LLC – Goose Creek Wastewater Project

Mr. Leonard said this loan will be different than other loans because AIDEA will own the project through title, through the term of the loan. It did not go through the regular loan participation process.

Chair Galvin asked if AIDEA will be the owner of the project for collateral or for other purposes. Mr. Leonard said AIDEA will be the owner of the project with a provision that once the loan is paid off, the title will transfer either to Valley Utilities or to the state of Alaska depending upon who is entitled to that under the Design, Build, Operate, and Finance (DBOF) Agreement between the Mat-Su Borough, the state of Alaska and Valley Utilities.

Chair Galvin asked, AIDEA will own it as long as there is an outstanding loan but once the loan is paid off someone else will own it, to be determined? Mr. Leonard said yes, based upon the underlying agreements between Valley Utilities and the Department of Corrections ("Corrections").

Chair Galvin asked why it is structured this way. Mr. Leonard said AIDEA can own and finance a project for a public purpose. This loan will provide long time financing relating to the construction of the wastewater facility for the Goose Creek Correctional Center located in the Mat-Su Borough. Mat-Su, in conjunction with the state of Alaska, solicited and procured a DBOF Agreement with Valley Utilities, LLC and one of the fundamental components of this loan is that underlying agreement. AIDEA is asking for a portion of the fees the state of Alaska DOC pays Valley Utilities be assigned to us that deal with the debt service. It is anticipated that AIDEA's loan will be substantially lower than the cost of finance if the facility uses a private placement, approximately 200-250 basis points. The loan request is to purchase 100% of Wells Fargo Bank's construction loan. Based upon that structure of the agreement between Valley Utilities and State, AIDEA's management believes it is appropriate and prudent to waive the following statutory provisions. The regulations that were just passed allows AIDEA, if AIDEA is going to own a project, to waive certain statutory provisions under the loan participation program. The bank retains 10% of the loan and AIDEA will purchase 100% of the construction loan requiring 75% loan-to-value and also requiring the loans to be secured by a mortgage because we will have title to the facility. Each of the statutory requirements waived tends to mitigate our financial risks with the project. The staff has concluded the financial risks that would be covered through those statutory requirements are mitigated by the fact that the obligation of Corrections to pay Valley Utilities all debt service on financing the facility will be assigned to us. Another factor mitigating the risk is that the wastewater facility project is critical to the operation of the prison.

Commission Galvin asked if the reason why the loan is structured this way is because it is the only way we have the authority to waive other requirements, or is there another purpose for owning it and that would again allow us to waive it. Mr. Bjorkquist said the primary, if not exclusive reason, is to allow this transaction to go forward through the waiver of provisions that otherwise would prevent the loan from being approved.

Chair Galvin asked are those provisions statutory or regulatory? Mr. Bjorkquist said they are statutory and also regulatory because the regulations pick up and mirror the statutory requirements. The two specifically are, (1) the bank retains 10% of a loan, and (2) there be a 75% loan-to-value ratio. Technically there is a provision requiring a mortgage or other security documents. AIDEA is going to own it and it is not going to a mortgage. He doesn't think that needs to be waived, but for technicalities, to avoid a ground for challenge, that is also added in the waiver.

Chair Galvin asked if AIDEA has ever done this simply because of the purpose of the loan or has AIDEA done it for a project development. Mr. Bjorkquist said he was not aware of AIDEA ever owning a project or loan participation. This project deals with loan participation and with development finance. The difference between the two is with development finance AIDEA owns and operates whereas the loan participation language is if AIDEA intends to own but not operate project, then AIDEA has an expressed statutory ability to waive certain statutory provisions in 44.88.155. [At the March 2, 2011 board meeting, Brian Bjorkquist made a clarification to the minutes of December 3, 2010. On page seven, the fourth paragraph, I am quoted as saying, "This project deals with loan participation and with development finance" speaking in terms of the Goose Creek Wastewater Project. What he intended to say at that point was that the definition, the statutory definition of "project" deals with both loan participation and development finance, not the Goose Creek Project itself in that paragraph.]

Commissioner Bell asked, isn't where the project is now the most economical way to approach this loan participation? Mr. Bjorkquist said this is a project that fits under the definition of project for loan participation. It would not be a project that fits under the definition for development finance.

Chair Galvin asked, why is that? Mr. Bjorkquist said the definitions for loan participation is broader and includes business activity and facilities associated with commercial activity which does not fall under the development finance project definition.

Mr. Winther asked, is AIDEA going to own the project and is Valley Utilities going to operate it? Mr. Bjorkquist said correct.

Mr. Winther asked if there will be some type of contractual arrangement between AIDEA and Valley Utilities. Mr. Bjorkquist said correct.

Mr. Winter asked if there will be conditions in the contract regarding the maintenance and running of the facility.

Mr. Bjorkquist described the larger transaction and how AIDEA fits into it. The state contracted with the Mat-Su Borough for the construction of a prison at Point Mackenzie. This facility requires a waste and wastewater facility. The state and borough collectively solicited somebody to design, build, operate, and maintain the water and wastewater facility for the prison. There is a large agreement between those parties dealing with maintenance and operation. What AIDEA is doing is stepping into that arrangement and will coordinate with Corrections as to the oversight of maintenance, etc., maintaining the facility, and coordinating and working with Corrections in that context to make sure there is proper maintenance and oversight. AIDEA is participating by stepping into a pre-existing arrangement. The agreements between AIDEA and Valley Utilities will include a lease of the facilities so they can operate, which will have a tie-in to the DBOF Agreement. There will be a loan agreement for the payment. One of the fundamental structures of the DBOF Agreement is Corrections pays for everything. They pay operating costs, maintenance, and the financing cost. It is the financing cost component that will be assigned and paid directly to AIDEA to repay the loan.

Mr. Winther said, at the end of the day, Valley Utilities and the prison will own the project and AIDEA will not. It will be an automatic deal once it is paid off. Mr. Bjorkquist said this is what AIDEA is contemplating. Whether Valley Utilities owns it or Corrections owns it depends upon other things in the DBOF agreement and whether Corrections has satisfied conditions so that they are entitled to ownership.

Chair Galvin said, so at the end of the day, AIDEA will not own it. Mr. Bjorkquist reiterated that AIDEA will not own it.

Mr. Felix said he thinks AIDEA's margin of exposure is in the cancellation clause of the contract between Valley Utilities and the state.

Mr. Bjorkquist said there will be a separate agreement between AIDEA, Corrections and Valley Utilities that will provide that if any costs arise out of AIDEA ownership for purpose of this financing, the state, subject to appropriation, will be paying those costs.

Mr. Sheldon asked if this is because the state's credit rating is affected and it's in the state's best interest to pay those costs so that it credit rating is not infringed?

Mr. Bjorkquist said he doesn't know if it affects the credit rating. AIDEA is getting some clarification so that just in case something odd might otherwise happen, that this fundamental relationship or obligation passes through. He thinks it is a separate issue. [At the March 2, 2011 board meeting, Brian Bjorkquist made a clarification to the minutes of December 3, 2010. On page eight, seventh paragraph, I'm quoted as saying, "I did not know if bonding affected the state's credit rating" and before the bonds were issued, we confirmed with the Department of Revenue that these bonds were not expected to have any impact on the state's rating. The concerns that had been expressed earlier had to do with a completely different transaction where private bonds would have been issued with a statement that they were to be repaid through revenues expected from the state. This was a General Obligation bond of AIDEA and those concerns were not the same. I just wanted to clarify that we did follow through and answer that question.]

Chair Galvin said the state has a significant interest in making good on our obligations and not having the Legislature refuse an appropriation that was otherwise obligated. If AIDEA were in a position where we had a payment that was expected to be made to us, subject to appropriation, we would be relying upon the good faith of the legislature to make the payment.

Mr. Sheldon said this is one of the most complex arrangements he has ever seen and asked if this was presented as a conduit revenue bond at the October meeting. Mr. Leonard said no, it was an eligibility resolution for a regular bond, not a conduit bond.

Mr. Sheldon asked if this would normally be handled by an organization such as a municipal bond bank.

Chair Galvin said the issue is going to be that that Department of Corrections builds the facility. DOC is in a mutually beneficial relationship with the Borough on the project. The Borough could decide they want to take responsibility for the waste water facility and seek to fund it as a public project and could look to the bond bank to provide the mechanism for access in the market for the project. For whatever reason, Valley Utilities takes on the obligation of how to finance and operate it. Trying to find the most opportune way to finance it, Valley Utilities came to AIDEA and found this vehicle. That doesn’t mean that AIDEA is somehow in competition with the municipal bond bank. There were interim decisions that were made by independent entities that decided, for whatever reason, not to pursue that direction of organizing the project.

Mr. Sheldon said since you indicated that you are not certain about the decision behind this management Susitna borough or other entities, I would like to ask staff whether or not they have had an opportunity to speak with any officials at the municipal bond bank and or management of Susitna borough as a step in the due diligence process in determining why they may have passed on this, was there any contact made by staff?

Mr. Leonard said yes, with the bond bank. The director of the bond bank, Deven Mitchell, has been in the calls with AIDEA, Valley Utilities and DOC through this whole process. They have been involved as an advisor on how to find the best interest rate for this project. Mr. Leonard spoke briefly with the Mat-Su finance director, but did not go into the true details of why this wasn’t issued as a municipal bond. Mat-Su went through an RFP process to have a private entity own, finance and operate it. Going back to why that decision was made, I do not have that information.

Mr. Vassar said he does not know why, but does know that the Mat-Su Borough was clear all along that they do not want to own and operate this facility. If the Mat-Su Borough is not, or any other municipal governmental entity in the state, is not the owner and operator, then the bond bank cannot finance it.

Mr. Sheldon said this answered his question. I am just trying to determine if AIDEA was the lender of last resort in this situation and that it appears to be.

Mr. Leonard said AIDEA is one of the few vehicles an entity can use to get tax exempt financing. There are two routes to get tax-exempt financing, one would be a conduit bond. The ARRA stipulation is that if you want an alternative minimum tax holiday, it has to be issued before the end of the year, which is approximately 50 basis points. Valley Utilities has two options to get a tax-exempt rate. One is going through a conduit bond, which would be issued by AIDEA or the municipality, but at this point in time it would have to be done through a private placement. This is what Valley Utilities was looking at and the rates were going to be in the 7 to

7.5 percent compared to where AIDEA can issue a tax-exempt bond, a general obligation bond, in the range of approximately 4.5 %.

Chair Galvin reiterated that AIDEA is not the financing entity of last resort, but may be the tax-exempt financing entity of last resort, which is a significantly important distinction. AIDEA is not getting involved in a project that is unable to obtain financing otherwise. AIDEA is just being involved in a project where ultimately the cost of financing will be borne by the state and there is a public value in AIDEA participating in this project as a financing vehicle through a tax-exempt opportunity that isn't otherwise available to the private sponsor. If Valley Utilities wants to go the tax-exempt route they have to come through us because the borough doesn't want to do it.

Mr. Leonard said one of the things reasons AIDEA is looking at this project and bringing it forward is one of the missions or goals of AIDEA is to pass on to businesses and project developers access to lower cost capital through tax-exempt financing and issue large bonds.

Mr. Sheldon asked the financial advisor, Pat Clancy, if this is a noncompetitive process AIDEA is taking to the bond market. Mr. Clancy said correct.

Mr. Sheldon asked if there was another choice, a competitive or negotiated process.

Mr. Clancy said this is a negotiated process. The two broad categories of sales that are available to AIDEA are, 1) put a transaction together and solicit bids from underwriting firms to underwrite the transaction where they, on a day certain based set of terms that AIDEA knows, solicit bids; and 2) the other is to run a process in advance, select an underwriter, work with them to structure the transaction, and then on a day, they run a process to find investors in the bonds and negotiate the final pricing. AIDEA is doing the latter, with Goldman Sachs.

Mr. Sheldon said is it fair to say the negotiated sales are more costly than competitive sales in the process, because it is not a bidding process.

Mr. Clancy said it is fair to say, in certain transactions that would be the case. Those transactions are ones which are generally easily understood and can, in a short time, be understood by enough folks to create a competitive process. We have, in this situation, a very complex transaction as you are aware, and a very short time line to pursue because of the expiring ARRA regulations. It was our conclusion and our advice to AIDEA that the only way to get the transaction done in this year would be to use a negotiated process where we had somebody in tow. We were uncertain there would be any underwriters that would undertake this transaction in this time line and in fact had difficulties with earlier firm that had decided to back out.

Mr. Sheldon asked Mr. Clancy if he knew why the other firm backed out. Mr. Clancy said it was too small and too complicated for them. There is a huge amount of business being driven by the ARRA expirations as of December 21. This is way under the noise level for most of the firms working at this point in time and way more complicated than a typical transaction. There simply wasn't bandwidth on the part of the other firm. They also didn't think AIDEA could put it together and they would waste their time. Mr. Clancy said Mr. Bjorkquist and AIDEA's lawyers have been doing extraordinary work in terms of putting together the underpinning loan. They were worried that we would want to sell the bonds in advance of the loan documents and in essence create a blind pool. We all thought this was a serious possibility and three weeks ago committed to not do this and have been working to get this done.

Mr. Leonard said that in discussions with Valley Utilities, DOC and all the different parties, AIDEA went through the process of identifying the advantages and disadvantages of slowing the project down and not selling the bond, or moving forward with it until after January. The request from the parties involved in this transaction is that they really wanted to set the rate before the end of the year and be able to take advantage of the alternative minimum tax holiday.

Mr. Sheldon said he has a question for the Wells Fargo representative.

Mr. Felix said it would be helpful to have a very brief summary paragraph, a plain English version of what Mr. Leonard just described, to give a deal like this a little bit of background. As a board it would be helpful to know whether or not AIDEA is acting as a lender of last resort or first resort, a summary paragraph that gives contextual meaning to the deal. Mr. Leonard said he will be responsible for including a brief summary in the board packet.

Chair Galvin invited Pita Benz, Wells Fargo Senior Vice President of Commercial Real Estate to the table.

Mr. Sheldon said, in summary, this is being presented as a loan participation, yet it appears to have the attributes of a development finance project with Wells Fargo retaining no interest post 2011. Chair Galvin asked Ms. Benz if this was a reflection from her perspective. Ms. Benz said yes.

Mr. Sheldon asked Ms. Benz why Wells Fargo wouldn't provide long term financing on this project. Ms. Benz said Wells Fargo was asked to provide construction financing. There was always an intention that within a year or two of operations, some sort of other permanent financing through the state or DOC would step in and take Wells Fargo out so they primarily approved a construction loan.

Mr. Sheldon said AIDEA is looking at other reasons to meet again this month, is it possible, as a contingency, that Wells Fargo would consider taking down part of the long-term portion of this loan and participate with the state of Alaska as a normal arrangement. Is that something you would be comfortable taking back to your loan committee?

Ms. Benz said, I don't think this is what was discussed. It is not a possibility that can be answered within the confines of trying issue these bonds.

Mr. Sheldon asked, are you comfortable taking this project back to your loan committee.

Ms. Benz said it would depend on how the terms are structured.

Mr. Sheldon asked, with these terms, would you be comfortable taking this project back to your loan committee for participation by Wells Fargo in a long term process with an X amount of years, which I think has not yet been determined.

Ms. Benz said, I would have to look and see what our loan approval is, but we have agreed that if the borrower does not have long-term take out, that we would certainly do some type of a long-term loan with a very short amortization just to get them through the financing process.

Mr. Sheldon asked, would there be a balloon that would need to go to another lender? Ms. Benz, yes.

Mr. Sheldon said he keeps coming back to this idea that AIDEA is a lender of last resort on a project that is difficult, and he doesn't want to presuppose that there aren't other questions from the board.

Chair Galvin asked Mr. Sheldon what he sees as the difficulty or the risk.

Mr. Vassar said, on the topic of lender of last resort, this project was originally going to be financed with bonds issued by the Mat-Su Borough and that financing would have been able to be accomplished in all likelihood. The reason that that financing was abandoned in favor of going to AIDEA was that AIDEA would be able to provide substantially better terms. So there was another financing alternative available. It would have been a conduit bond issue on a private placement basis. The significant thing AIDEA brings to the financing is its credit. As a conduit bond privately placed, the project would have been priced based on the revenue flows of the project and Valley Utilities. They could have financed that and had a plan for doing that. They had a bank that was prepared to go forward with it, but those are not as ideal terms or security as AIDEA can provide.

Chair Galvin said he mentioned earlier he doesn't see AIDEA in this project being used as a lender of last resort. He sees AIDEA being used as an opportunistic lender who has access to financing vehicles that are not available to anyone else that provides a lower cost of financing than would be available if they went out to the private market or to other public financing vehicles.

Mr. Leonard said, looking at AIDEA's loan participation statutes it was intended at first as AIDEA was designed, was to be able to offer that type of financing. Looking at the loan statutes dealing with interest rates, it says that it will be the rate of the bond plus AIDEA's allocable costs plus bond issuance costs, so it was based on AIDEA being able to go out and getting a good rate on a bond and then adding its servicing costs on top of that.

Chair Galvin asked if the question is, has this project attempted to obtain financing from other entities and been turned away?

Mr. Sheldon said yes. When he makes calls to other entities, normally people are very open about talking about projects. He heard crickets on the end of the phone each time he asked about this project and concerned him that people are unwilling to talk about it. People normally are more than willing to speak to him about upcoming participations. AIDEA is taking ownership of utility infrastructure, and under this deal, Valley Utilities is operating, as well as takes for-profit, so they get paid for the operating and then they get paid again. Mr. Sheldon said he thought that when they get paid again that is for the people that actually own the property. He lives in a capitalistic world and this looks like double dipping. He cheers on capitalism whenever he sees it, but this is really deep double dipping.

Chair Galvin said he would like to explore this. The question is whether the payments that are contractually obligated by Corrections to be made to Valley Utilities, of which AIDEA is going to get assigned to it what we need in order to cover debt service, is the amount of that payment an amount derived from the payment for the Operation and Maintenance ("O&M") of the facilities, as well as some sort of premium for a repayment of ownership interest in basically the value of their capital. Is that a component of the payment in which case is AIDEA getting shorted a portion of the payment when we are ending up owning it.

Mr. Bjorkquist said AIDEA's financing doesn't affect how much Valley Utilities obtains. He doesn't believe AIDEA is being shorted and doesn't believe any of the amounts payable to Valley Utilities is from the "ownership." Valley Utilities is contributing capital to the construction of the water and waste water facility. Under the arrangement agreement with Corrections they are entitled to reimbursement for that at terms and conditions that were negotiated between the parties. They will continue to be getting a repayment of their contributions to the project. The O&M expenses are basically pass-through costs. There may or may not be a profit component and perhaps someone from Valley Utilities could speak. It been characterized by state officials as being a small amount. That is his understanding and he will let someone from Valley Utilities step up. So that deals with reimbursement. There are several components to what gets paid. One is the cost of financing and those are the amounts that are going to go straight to AIDEA. They will be based on whatever the cost of financing is. There are O&M costs which go to whoever is operating. There are reimbursement amounts for contributions from Valley Utilities to the construction. There may or may not be a fourth.

Mr. Howard Nugent with Valley Utilities said the way the contract is set up is that Valley Utilities is operating the waste water treatment plant on a pass-through basis for the maintenance and operational cost of the facility. If Enstar rates go up, that is a pass-through. Valley Utilities receives a very nominal percentage of that. It is established that Valley Utilities get an X number percent above and beyond that for managing the facility. It is a very straight forward contract. It is spelled out very thoroughly.

Chair Galvin said it doesn't sound like it.

Mr. Sheldon said if it is not going to be anything then you would be willing to assign that right away to the Authority to receive whatever it might be, if it is not material.

Mr. Sheldon said what he just heard was that if there were profits, they would take them.

Chair Galvin, what they are saying is the profit amount is going to be a percentage of the pass-through costs which will not include the cost of their financing and ownership. So they are not getting a recovery of capital, they are only getting a recovery of expenditures to manage the facility. Their expenditures are going to be personnel costs, utility costs and other costs that will not be itemized.

Mr. Sheldon said he was not surprised there is not much of a profit given the rate that has been quoted for this project is substantially higher than other projects. He asked Ms. Benz to describe the difference between, in the materials, Highland Correctional Facility as the referenced comparable for rates being paid.

Ms. Benz said she doesn't have access to the materials Mr. Sheldon has. She doesn't know what he is looking at. Mr. Leonard asked if these are materials AIDEA provided.

Mr. Sheldon said it wasn't marked confidential. He asked Mr. Nugent if he had a personal relationship with anyone on the board or staff of AIDEA. Mr. Nugent replied no.

Mr. Sheldon asked Mr. Nugent if he has any personal friendships with anyone or wish to disclose any personal friendships. Mr. Nugent replied no.

Mr. Sheldon asked Mr. anyone on the board. Mr. Nugent replied no.

Mr. Sheldon asked Mr. Nugent if he knows any AIDEA staff. Mr. Nugent said he has met several staff members within the past three weeks.

Mr. Sheldon asked Mr. Nugent if he was a party to the arrangement the cover memo refers to. He reads from memo verbatim, “Refers to a design, build, operate and finance or (DBOF) contract entered into the state department of corrections, the Mat-Su Borough and Valley Utilities.” It seems to imply that the AIDEA loan participation requirements of 75% of loan-to-value, does not apply to the DBOF contract. It only requires Valley Utilities to finance the project but not inject equity. So in other words, AIDEA is somehow being encumbered on this but he noticed that they are not party to the contract. Is AIDEA party to the DBOF arrangement in any way?

Mr. Bjorkquist said, at this moment, the answer is no. As part of the loan documentation AIDEA will receive certain assignments of the DBOF. There is also a separate agreement with Valley Utilities and the department of corrections that give AIDEA certain rights that flow through or are related to the DBOF. There is a contemplation that there should be an amendment to the DBOF, but the possibility of that being accomplished in a timely basis with this financing, rather than worry about that we have a separate agreement that incorporates AIDEA into the DBOF, is the way he would characterize it.

Mr. Sheldon, so perhaps the memo was anticipating this event?

Mr. Bjorkquist, yes and AIDEA has negotiated that with Corrections and Valley Utilities and he believes staff are very close to a final draft of that agreement.

Mr. Sheldon, so the final agreement, which the Authority doesn’t know what it consists of and doesn’t know how AIDEA may be in relation, there is just a loose outline, but as it was discussed earlier today, it is good to actually read an agreement before voting on things. How quickly can all of these final things be put together so the board actually knows what they are dealing with? It is already a complex deal, but it has all of these missing pieces. There is a bunch of blanks in the bond offering. How quickly can the board meet again?

Mr. Bjorkquist said he mischaracterized if he said there was lots of blanks in this agreement that is going to bring AIDEA into the DBOF. He asked Mr. Vassar to comment.

Chair Galvin asked Mr. Bjorkquist if he said there was going to subsequently be an agreement related to the assignment of certain payments out of DBOF to secure AIDEA’s payment. How variable are the potential terms of that and the question is how should the board evaluate the deal absent finalization of that assignment.

Mr. Bjorkquist said this transaction is not unlike other loan participations that are brought to the board. The documentation happens after a board approval. He wanted to make that one point. The fundamental conceptual components of the deal are already set. As to the payment for debt financing it is going to go to AIDEA. That’s a done deal. The obligations for AIDEA to be paid costs regardless, subject to appropriation that is a done deal. What he mentioned earlier about almost final, it's the final read through of the document.

Mr. Sheldon said he is trying to figure out what is actually known. Mr. Bjorkquist said the conceptual idea of framework is in place and it is not. The board had to waive an entire state statue in order to do this deal and has the authority to do so. The board has been granted that, which they voted for themselves. He feels like he is grabbing air. Each time he thinks he gets a corner on this, it shifts somehow or there is information that isn't there. Mr. Sheldon said he knows AIDEA is up against a time deadline. He is a big fan of ready, aim and fire and the last time that he remembers this many exceptions were made had to do with a really big fish plant. There isn't a parallel with the type of financing used, however, that deal was 100% financed too and it was a facility being run by a start-up company with no financial resources. Does Valley Utilities have any assets?

Mr. Nugent said Valley Utilities is composed of four individuals. The individuals have assets. Does Valley Utilities have assets in the LLC at this time, only in this project. The LLC was formed explicitly for this project.

Chair Galvin said he appreciated how Mr. Sheldon was going about this, but thinks trying to compare AIDEA's participation in the seafood processing plant project and the risk to AIDEA represented by that, with this loan, which is basically an obligation of state of Alaska to make good on a payment from a correctional facility for a wastewater facility they are going to need.

Mr. Sheldon said he thinks it actually is on the magnitude of the fish plant and stated why. He asked for input from the bond counsel and financial advisor. If Valley Utilities somehow defaults and AIDEA is not able to perfect, wouldn't it actually be considered a default of the state of Alaska how it is currently structured?

Chair Galvin said, when you say Valley Utility defaults, what would be the nature of the default you are referring to?

Mr. Sheldon said any default that they are unable to make good on. For example on the original part between now and September 2011 when Wells Fargo disappears, if somehow they default, if there is some type of cataclysm, an earthquake, or perhaps they are unable to perform, as new entities frequently are unable to perform …

Chair Galvin asked if Valley Utilities was building the plant, are they the contractor?

Several people at the table said yes.

Chair Galvin asked Mr. Sheldon if the completion guarantee aspect of the potential risk is what he is referring to.

Mr. Sheldon said right, because it is not just risk to this project. Trying to understand how this deal is structured, and it is very complicated, Mr. Sheldon believes that the state of Alaska's credit rating may be directly encumbered by this deal. He asked the financial advisors, if for some reason Valley Utilities, with no track record and no direct assets were to default, will the state of Alaska's credit rating become encumbered.

Mr. Clancy said they don't think so. The bonds will be secured by AIDEA's general revolving fund from a credit markets perspective. The credit markets will never know whether or not the state of Alaska is making payments or not because payments come to AIDEA. There are millions of dollars flowing through the revolving fund and AIDEA will continue to make payments because this is not a conduit financing. From a credit markets perspective, AIDEA is making an investment based on its expectation of payment from the state but bond investors are not. They don't see a direct link on failure to pay by the state. The second part of that statement which is a little complicated is, failure to perform in the interim has been a major concern on AIDEA's part because it's been the concern that failure to get this facility completed may give rise to other issues related to the ongoing payment. There is a prison and a water facility also being completed and is a necessary component. There is great momentum toward the ultimate completion of this so the whole facility can run, which gives comfort. If Valley Utilities can't complete the project, provided in the documents is the ability for AIDEA to step in, replace them and put somebody else in charge to complete the project. AIDEA will make sure the project is completed and the state can occupy the prison and have a waste water facility. They have tried to protect AIDEA's interest in the bond documents although not directly in the loan documents. AIDEA can take remedial action to make sure the facility is operational for the state when it occupies the prison. The state will then be motivated to make payments to AIDEA to operate it.

Mr. Leonard asked Mr. Bjorkquist if the documents say the state will pay AIDEA for the costs they assume.

Mr. Bjorkquist said that is correct. That is a separate agreement. AIDEA ultimately can complete the project. Wells Fargo first, as a construction lender, has a certain right, that second Corrections will have a certain right to complete the project, third AIDEA would so. So ultimately AIDEA can ensure that the project gets be completed and there are agreements to be in place that AIDEA will be repaid. Valley Utilities default under the agreement is less of a concern to AIDEA because the state of Alaska is going to have an obligation to pay no matter what.

Chair Galvin said the state is paying for a wastewater facility for a correctional facility.

Mr. Sheldon said, but this goes back to Mr. Winther's point, is AIDEA going to get stuck with this project? If Valley Utilities defaults and AIDEA ends up paying, is AIDEA going to hand it over to them when they get healthy again?

Chair Galvin said, to clarify, when you say "stuck with it," just to make sure we are talking about the same thing, to me "stuck with it" means we've got an asset that does not have the ability to bring in the revenue to pay the financing costs and the question is, what is the risk that we are going to end up owning a white elephant that does not suit its purpose. What Brian described to me was, it sounds like three layers of obligations to make the facility useful for the purposes that it is intended to.

Mr. Sheldon, But we were told at the beginning of this segment of the meeting that it is unlikely that we could possibly end up with them backing way up. This is one scenario where AIDEA could end up in the ownership and operation of it, if Valley Utilities fails to perform.

Chair Galvin – What's the, didn't we just …

Mr. Sheldon – We just went through it, we went through that in the event of their default, particularly in the startup phase to September 2011, if they default, we are going to have to find someone else to come in and step in for them. That is a scenario in which we can end up with the asset and the whole smorgasbord.

Chair Galvin, What I thought I heard Brian say was that AIDEA would not be the first one obligated to do that.

Mr. Bjorkquist, Yes, and that is not only completing construction, but also operating it. If Valley Utilities were to default, Corrections has certain rights under the DBOF to replace them. The contemplation is AIDEA is going to coordinate with Corrections and not duplicate those efforts. Valley Utilities would be removed and somebody else would be put in. That is going to have to happen because there is a prison next door that needs this facility. Corrections is going, to themselves, or in coordination with AIDEA, needs to make sure those facilities are available.

Chair Galvin said, so this explains the scenario in which AIDEA gets stuck with it?

Mr. Sheldon said he stands corrected. The state of Alaska will be stuck with it for a while, or the Department of Corrections will be stuck with it for a while, but AIDEA won't.

Chair Galvin said the department of corrections has an interest in making the correctional facility operational and in order to fulfill that desire, they will participate with AIDEA in finding someone to make the operation.

Mr. Sheldon said regardless of the jurisdictional entity, whether it is the Authority, the department of Corrections, or the state of Alaska, tax payers for the state of Alaska could possibly end up with this asset.

Chair Galvin said Alaska, as our shareholders, are already going to own the asset regardless.

Mr. Sheldon said we can hope and dream that somehow this will revert to them after they pay out our loan.

Mr. Bjorkquist said the entity that is going to pay off the loans, no matter what, is the state of Alaska.

Chair Galvin asked if Valley Utilities was ever going to own this facility.

Mr. Bjorkquist said Valley Utilities could own it because they have certain rights that are going to extend beyond the 20-year term of the AIDEA loan. For 10 years they could own it under the current deal with Corrections. Corrections could do certain things before that time and be entitled to the title and so Valley Utilities may never own it, but they might.

Chair Galvin said it will all be after we get paid.

Mr. Sheldon said this project has moved around a lot it in a short period of time. He feels we are rushing toward the end of the year headlong into something that we don't really understand. The whole concept of ready, aim, fire just because there is a time line at the end of the year does not give good reason to plow through to get this done. Perhaps if it is important and in the best interest of the state, there is a legislative session coming up where they could perhaps mandate some segment of dollars if it were this valuable to the state that would compensate an entity from the difference in the interest that would be paid between now and when that disappears at the beginning of next year. He thinks there are other ways. Perhaps Wells Fargo steps in to participate. His major concern is that there are ways to reduce the risk structure.

Mr. Felix asked Mr. Sheldon if he means risk to AIDEA or risk to the state.

Mr. Sheldon said there are too many participants and there are some blanks. He understands the blanks and the actual final documentation are normal, but is not comfortable because the board doesn't know what they are voting on and don't even know the length of the maturity bonds. There are just too many questions.

Chair Galvin said he can answer some of the questions. As it relates to the state credit rating, he has absolutely no concern about this transaction as it related to the state's credit rating.

Mr. Sheldon asked if he was speaking as the Chair or the Commission of Revenue.

Chair Galvin said yes, he has been intimately involved in getting the State's credit rated AAA. He does not see a threat to that associated with this transaction. With regards to Mr. Sheldon's characterization that there are significant questions that have been unanswered, he said he is still willing to continue down the line.

Mr. Sheldon stated that his last question is related to the original RFP which provided for a privately built and owned structure yet designed and financed by the State and Mat-Su Borough. He implied that because AIDEA was not a party to the design, build, operate, and finance contract that it was not bound to the terms of the contract.

Chair Galvin said he had no idea where this came from and asked what he was referring to.

Mr. Sheldon said he is referring to the process in which the idea for the project, how it was financed, how it was structured, the inter-operability of the project as a standalone project and how it was conceptualized.

Chair Galvin asked what the relevance is to the decision that AIDEA is making right now. Does it have something to do with some previous conception of how it might be financed?

Mr. Sheldon said he is worried about contingencies related in these other items. This has changed so many times and today there is a very complicated arrangement that has never been done by AIDEA it its history. AIDEA is opening up a firewall. By using a hybrid structure we are opening up the gates so that AIDEA may become available to other folks with other projects that may fit the bill just as we saw earlier in the meeting, part of the consideration of retaining jobs in approving things. It may fit the bill and so as a board we have become complacent and do things because we have done them before. That was a question, have we done this before to retain jobs and those sorts of things. He is not interested in opening up new doors as a member of a board of fancy financing. He thinks AIDEA has worked fine for several decades and delinquencies are far less on average than any of the banks in the state and if we start doing things more creatively, we are probably jeopardizing our own capability to move but perhaps even the state of Alaska is what you disagreed with.

Chair Galvin said, in response to that, one of the things he has had to come to grips with in his role on this board and on other boards he serves, as well as his role as Commissioner, is that he has got to make the best decision he can make based upon the situation he has in front of him. He cannot try to limit the discretion of a future person sitting in his seat because he doubts their potential wisdom. He wants to restrain their ability to exercise their own discretion at that time. For that reason I think that it is a …

Mr. Sheldon said you don't want to limit anyone in the future.

Chair Galvin said it has to do with making the appropriate decision based on the issue that he has been given and whether it meets the authority that he has and whether it's a prudent decision in and of itself.

Mr. Sheldon you said the appropriate word is prudent and I will end my questions with that.

Chair Galvin said that is the decision that each one of us has to make on every one of these that is laid before us, is whether we believe based upon the information that we have available to us, that this is a prudent decision on behalf of this organization. The fact that it could establish a precedence that is misused by future boards to justify an imprudent decision I don't think is a reason for us to not make a prudent decision now.

Mr. Leonard said as staff looked at this project, they realized that if AIDEA was going to help this facility, senior management realizes this is an important project for the valley and an economic priority for the valley. AIDEA was asked to come up with innovative financing to bring down the cost for a public purpose. As AIDEA moves forward with the Strategic Plan the board will need to look at new types of financing and innovation to help businesses, such as new markets tax credits, maybe other financing that is coming down the line.

Chair Galvin said this is an important consideration when looking at this project, this particular structure of financing and anticipate where the board sees AIDEA going. It is a relevant question in terms of the juxtaposition laid out which is, is AIDEA going to become a vehicle for creative public financing on a project by project basis, or is AIDEA going to retain our current standard of being a high quality financing opportunity for a particular segment of the market. It has been his experience on the board that we have been looking for opportunities to expand the role of AIDEA in the public financing arena and to do so, we are going to have to take more risk. Part of what AIDEA looked at along the lines is the high and the low delinquency rate is an indication that perhaps AIDEA isn't getting out there in the market and participating in enough projects.

Mr. Sheldon said he doesn't agree with that. He thinks the excellent staff and their homework is the reason.

Chair Galvin said this is an issue for the Board to deal with on a project-by-project basis and back to where we do find agreement is that is up the each individual board member to determine whether the application is a prudent investment for AIDEA based upon the structure that we have. The last thing is that this is a struggle for the board member of any organization is that there is a certain amount of trust that is inherent in the obligation of the staff to have done due diligence in bringing information to us that we, as board members, cannot put ourselves in the position of having to go through from soup to nuts, every aspect of the transaction and confirm that each one is there.

Mr. Sheldon said except in this situation where it is a completely new idea for a type of transaction. We do need to go through because we do need to explore what's been done.

Chair Galvin said he has no qualms with the exercise the board has been through today. He thinks it is absolutely appropriate and the board's responsibility. The question is when there are areas of the transaction that are going to require additional work, whether it is to finalize the assignment documents, that we have conditioned our approval upon the completion of that document and that transaction will not go forward absent the execution of that assignment. The question for us as board members is whether we have to put ourselves in the position of having to have that presented to us before we approve it or can we approve it with the expectation that the staff is going to do the appropriate work in putting it together. Is attention that is going to be inherent in the transaction, particularly ones that are time consuming.

Mr. Sheldon said board members used to be part of the loan committee.

Chair Galvin said this is for board members going forward if they want to change that.

Mr. Leonard said as staff is going through the process of looking at the loan participation program and the project program, in the recommendation in the strategic plan is that there will be a board member on both the investment committee for projects and also a board on the loan committee. Staff is working on that process right now and are going to bring that forward in the January meeting.

Mr. Winther said two or three years ago the board had a discussion on how to bring more business to AIDEA because they were short on loans. It has been through the innovations that has attracted these types of projects. He said he doesn't have a problem with this project and believes the presentation by the staff that the situation is such that the payments are subject to appropriation by the Legislature, which is political. But remember that AIDEA has funds to distribute each year so there is some leverage to guarantee ourselves payment.

Chair Galvin said if there were no further questions regarding the entire transaction, he asked Mr. Vassar to review the bond transaction. The board will take up the resolutions after this discussion.

7. NEW BUSINESS

7D ii. Series Resolution No. G10-26, Goose Creek Wastewater Project

Mr. Vassar provided an overview of Revolving Fund Bond Series Resolution No. G10-26. He stressed that AIDEA is involving its credit in this financing. AIDEA issues revolving fund bonds under a master resolution by way of series resolutions. This series resolution authorizes the issuance of AIDEA's bonds to participate in the loan just discussed.

At this time AIDEA does not have all of the bond sale details. The principle maturity structure and the specific interest rates will be known at the time the bonds are sold. Several things require flexibility. Section 201 provides that AIDEA cannot issue more than 20 million dollars of bonds. The amount is expected to be approximately $17 million. Putting a ceiling on how much can be issued limits the discretion of staff, yet allows staff to go forward and work out the deal. It is anticipated there will be capitalized interest paid from bond proceeds. Until September 1, 2011, when the state begins making payments on the loan, AIDEA is not receiving payments. Interest will accrue on the bonds and the interest will be paid by borrowing it. These are not extraordinary creative financing ideas and are done all the time. AIDEA will finance costs of issuing these bonds with the proceeds of the bonds up to the Internal Revenue Code allowance of 2% of the bonds proceeds.

Section 501 describes the sale of the bonds. If the board approved this resolution, the executive director is delegated power to approve final interest rates, maturity dates, the aggregate principle amount (to the limit of 20 million dollars), the final terms of redemption and redemption rights of the bonds. The investment banker for the underwriter for the bonds will inform AIDEA where the market is at the time the bonds are sold.

In response to questions from the board, Mr. Vassar said that ultimately the State will bear the cost of potentially higher interest rates. The agreement is that Valley Utilities will pay AIDEA, but the source of revenue to Valley Utilities is the payment from the State. He concurred with Chairman Galvin's assessment that AIDEA isn't losing money if the interest rate is higher than what is currently anticipated.

Chairman Galvin asked if the risk exposure to AIDEA is associated with the uncertainties identified in regard to the bond amount. The board is being asked for room over the currently estimated total of $17 million by authorizing $20 million to provide flexibility in the interim period. He asked if there were any other risk exposures to AIDEA in terms of our value out of the transaction. Mr. Vassar said the risk to AIDEA is mitigated by virtue of the underlying arrangement with Valley Utilities. The bonds are general obligations of AIDEA, so AIDEA is ultimately responsible for the payment of the debt regardless of what happens. These particular costs will pass through Valley Utilities to the State.

Mr. Clancy said the State asked AIDEA to move quickly and the goal has been to mitigate AIDEA's risk in assisting the State to achieve a lower interest rate. The State has been very willing to assume the risks related to the financing. The reason the principle amount is not known is because bonds will sell at a premium or not. The par amount of the bonds will fluctuate in order to receive the appropriate amount of proceeds. The capitalized interest period is based on when the state wants to start paying and this has been factored into the bond par amount. All of this has been done to accommodate the State and the State has been very willing to accept the risks related to the pricing. Mr. Bjorkquist added that under the DBOF agreement, the State already has that contractual obligation.

In response to a question from Mr. Sheldon, Mr. Bjorkquist said a number of state departments have been involved in developing this request including the Department of Law, the Department of Correction. Mr. Leonard said the Office of Management & Budget (OMB) in the Governor's Office was also involved.

Mr. Clancy added that AIDEA was asked to close by the end of the year. The preliminary official statement will be distributed on Monday to the market and the bonds will price a week from Tuesday.

MOTION: Mr. Felix moved to adopt Loan Resolution L10-10; Commissioner Bell seconded. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Mr. Winther, Mr. Sheldon, Mr. Felix, Commissioner Bell and Commissioner Galvin voting yea.

MOTION: Commissioner Bell moved to adopt Series Resolution No. G10-26 as presented. Seconded by Mr. Felix. There being no discussion, the question was called. A roll call

a future meeting to request approval for funding and construction of the Sitka Fishmeal Processing Plant.

Mr. Leonard and board members presented Commissioner Galvin with a certificate of appreciation for his service to AIDEA and the board.

9. BOARD COMMENTS

There were no comments.

10. ADJOURNMENT

There being no further business of the Board, the meeting was adjourned at 1:47 p.m.

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

vote was taken and the motion passed with Mr. Felix, Mr. Sheldon, Mr. Winther, Commissioner Bell and Commissioner Galvin voting yea.

7E. Resolution No. G10-22, FY2012 Dividend Recommendation

Mr. Leonard reviewed Resolution No. G10-22 stating staff has recommended paying a dividend to the state at the 50% level in the amount of $29,400,000. This dividend is the highest paid to the state since the inception of the dividend program. If approved today, the total paid to the state is over $304 million. Mr. Leonard said the shareholders appreciate the value of the rate of return based upon the confidence they have with the way AIDEA fulfills its mission and manages itself.

MOTION: Commissioner Bell moved to adopt Series Resolution No. G10-22 as presented. Seconded by Mr. Felix. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Mr. Felix, Mr. Sheldon, Mr. Winther, Commissioner Bell and Commissioner Galvin voting yea.

7A. Election of Board Chair

The current Chair, Commissioner Patrick Galvin, is leaving office December 6, 2010.

MOTION: Commissioner Bell motioned to elect Mr. Winther as Chair. There were no objections. Motion passed.

MOTION: Mr. Winther motioned to elect Mike Felix as Vice-Chair. There were no objections. Motion passed.

8. DIRECTOR COMMENTS

8A. Director’s Status Report

Mr. Leonard said White Pass and Capstone Minto agreed to stay litigation for another 90 days allowing staff time to continue negotiations. He gave credit to staff and attorneys for their ability to work to reach an understanding beneficial to all.

Mr. Hemsath provided an update. He said AIDEA has a reimbursement agreement with SMOG for due diligence on the Sitka Meal Fish Waste Project. Staff were looking at three Sitka fish processors as the source of waste product. Currently one fish processor has opted out and shows no interest in proceeding, although a second processor in Petersburg has. We continue to run a series of stress tests on the economics of this project based on the material coming from Petersburg with the higher transportation costs associated with that option. A variety of stress tests have been done from the base case of $7.5 million with a 7% return and a 15-year term to one with a $9 million capital cost. In all cases, the project has positive economics. Additionally AIDEA has included a case where the amount of feedstock from the Petersburg facility is reduced as the plant works through start-up problems in conjunction with a 15% increase in projected operating costs. In each case, the project economics comes out positive. As a result AIDEA is continuing to move forward with operating agreements on the project including with the Petersburg Supplier. It is anticipated this will be brought back to the Board at