



Alaska Industrial Development and Export Authority  
**BOARD MEETING MINUTES**  
**Tuesday, March 2, 2011**  
Anchorage and Juneau, Alaska; Dallas, Texas;  
Phoenix, Arizona; and Beaver Creek, Colorado

**1. CALL TO ORDER**

Acting Chairman Mike Felix asked Mr. Robert Sheldon to chair the meeting. Mr. Sheldon called the meeting of the Alaska Industrial Development and Export Authority to order on March 2, 2011 at 10:32 a.m. A quorum was established.

**2. ROLL CALL: BOARD**

Members present in Anchorage: Ron Arvin (Public Member); Robert Sheldon (Public Member).  
Member participating from Juneau: Susan Bell (Commissioner, Department of Commerce, Community, and Economic Development).  
Member participating from Arizona: Gary Wilken (Public Member).  
Member participating from Colorado: Hugh Short (Public Member).  
Member participating from Texas: Vice-Chair Mike Felix (Public Member).  
Joined the meeting in progress: Bryan Butcher (Commissioner, Department of Revenue).

**3. AGENDA APPROVAL**

Mr. Leonard requested an addition to New Business after 8E regarding the investment policy, with discussion and participation by AIDEA money managers from Alaska Permanent Capital Management and Callan Associates. 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); James Hemsath (Deputy Director-Development Finance); Valorie Walker (Deputy Director-Finance); Mike Catsi (Business Development Officer); Bill Phelan (Loan Officer); Karl Reiche (Project Development Manager); Mark Schimscheimer (Project Manager); Karsten Rodvik (External Affairs Project Manager); Sherrie Siverson (Executive Assistant); Sandy Burrows (Administrative Assistant); and Teri Webster (Administrative Assistant).

Others present in Anchorage: Brian Bjorkquist (Department of Law); Chris Brechbuhler and Jeff Pantages (Alaska Permanent Capital Management); Jeff Backlund (Northern Pacific Seafoods); John Hanrahan (Ocean Beauty Seafoods); Dennis Fenerty (Groh Eggers); Scott Johannes (C5, LLC); Craig Thorn and Jay Page (First National Bank); Kennis Brady (Student at UAA); Ron Bailey (Bailey's Furniture); Catherine Claxton (Northrim Bank); Brandon Spoerhase (Jack White Commercial); Mayor Siikauraq Martha Whiting and Walter Sampson (Northwest Artic Borough); and Scott Bernstein (Buccaneer).

Others attending via conference call: Harold Barnett (National Marine Fisheries Service); Garry White (Sitka Economic Development Association); and Cliff Kelly (Callan Associates).

*Listen to the full audio recording of the 3/2/2011 meeting at <http://www.aidea.org/boardmin.html>*

## **5. PUBLIC COMMENTS**

### **Gary White, Executive Director, Sitka Economic Development Assn.**

Mr. White wanted to show support for the project in Sitka (funding of a fish waste plant). The City and Borough of Sitka passed a resolution last August in support of the project. In January of this year, the City and Borough assembly approved the sale of approximately 26,000 square feet of property to Sitka Economic Development Association for the construction of the plant. Mr. White stated the project will solve a huge community issue with disposal of fish waste and will allow Sitka to be ground zero for this new technology. It will create jobs and be a statewide example to others interested in this new technique.

### **John Hanrahan, Executive Vice President of Production, Ocean Beauty Seafoods**

Mr. Hanrahan was representing his company in giving support to the proposed Sitka fish processing plant project. Comments made by Mr. Hanrahan are incorporated as an attachment to the minutes.

### **Jeff Backlund, Northern Pacific Seafoods**

Mr. Backlund explained that his company owns and operates four processing facilities in Alaska and was in attendance to give support to the Sitka fish processing plant project. Comments made by Mr. Backlund are incorporated as an attachment to the minutes.

## **6. PRIOR MINUTES**

The December 15, 2010 and January 31, 2011 meetings were approved as presented. The December 3, 2010 and January 13, 2011 minutes were approved as amended.

## **7. OLD BUSINESS**

There was no old business.

## **8. NEW BUSINESS**

### **8A. Loan Resolution No. L11-02 C5, LLC**

Mr. Leonard said Loan Resolution No. L11-02 is a request for AIDEA to participate in a \$4 million loan for long term financing. AIDEA's 90% participation would be \$3.6 million.

Ms. Anderson reviewed the information regarding Loan Resolution No. L11-01 as outlined in the Memo to the Board.

Several board members commented that it was good to see a loan with such a large number of new created jobs.

Mr. Short asked if anyone looked into the rumors that Costco was talking about building a store in the Wasilla area and what impact this would cause for Three Bears.

Mr. Scott Johannes, one of the guarantors on the credit, replied that they talked to Costco management and verified that there weren't any plans for them to build in the area. They also checked with Sam's Club and were told they would not put a store in the area but instead are investing in their current Wasilla Walmart store.

There were more confirmations from staff and board that the city base population does not meet Costco's requirements to build.

**MOTION: Commissioner Butcher moved to approve Resolution No. L11-02. Mr. Short seconded. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Mr. Wilken, Mr. Short, Mr. Sheldon, Mr. Arvin, Mr. Felix, Commissioner Bell, and Commissioner Butcher voting yea.**

### **8B. Loan Resolution No. L11-03 Bailey Family Partnership**

Mr. Leonard introduced this resolution stating that this is a refinance loan with AIDEA taking a 70% participation. This loan was in the pipeline before the board started having serious discussions about refinancing loans. The bank did modify the participation amount from a 90% loan to the current 70% loan.

Ms. Anderson reviewed the information regarding Loan Resolution No. L11-03 as outlined in the Memo to the Board.

Commissioner Butcher stated for the record a potential conflict of interest. His second-cousin, Heather, is married to Buddy Bailey, who although not attached legally to this, is the public face of the business. Mr. Butcher stated he would refrain from voting if that is the will of the board.

Mr. Bjorkquist stated that under the executive branch ethics act, a second-cousin, or even a cousin does not fall within the immediate family member. Mr. Bjorkquist also stated that there is not a financial interest at that level, and that for both of those reasons, Mr. Butcher does not have a conflict for purposes of the executive branch ethics act.

A discussion ensued regarding receiving a dashboard report for each loan, its impact and overall summary. Mr. Leonard confirmed that he can adjust his memo for each loan to include this information.

Mr. Arvin asked if the change in participation percentage from 90% to 70% was because of a new direction the board is taking regarding refinancing. It was discussed that the board and staff did not make a formal direction change, but refinancing loans are now lower on the priority.

Mr. Arvin asked about 70/30 on refinance loans.

Mr. Leonard stated that AIDEA has started asking banks to take a larger amount of the participation on refinance loans.

Mr. Felix asked about the correlation, targets notwithstanding, between every loan AIDEA makes and cash flow ability for the year.

Mr. Leonard replied that there is not a direct correlation on what AIDEA can finance, because AIDEA does have the ability to go to the market, and AIDEA's business model is based on large projects being financed through that market. The loan dashboard shows what our target is for our cash at year end. Mr. Leonard stated that staff is in the process of working with the board on doing true budgets.

Mr. Sheldon asked Ms. Anderson to elaborate more on this loan and when it started being reviewed.

Ms. Anderson explained the loan process and stated that it is a long process and this particular loan was initially brought to AIDEA in September. A preliminary look was done and AIDEA then gave it back to First National to submit a loan package. In December it was complete on their side and submitted back to AIDEA. The loan came before the loan committee in February and now to the board today. Ms. Anderson stated this particular loan took 6 months.

Mr. Sheldon asked about the dollar value of other additional loans of similar nature, i.e., low job creation that may be in the pipeline. Ms. Anderson said she does not have the loans broken out in that manner but AIDEA has over 70 million dollars in the pipeline - both refinance and new loans.

Mr. Leonard stated that the 70 million included these loans being considered today. AIDEA has 37 million in pending loans in various stages of the loan process.

Mr. Short stated that he thinks the board and staff owe the public a definitive policy statement. Mr. Short stated that AIDEA needs to come up with a policy that is clear and concise that the banks in Alaska can look at and know that is the expectation. Mr. Short indicated he hopes to be able to spend some time on this in the board's April meeting.

Mr. Sheldon agreed and asked Mr. Leonard to take that under advisement.

Mr. Leonard stated that this item is already planned to be on the agenda.

**MOTION: Mr. Short moved to approve Resolution No. L11-03. Commissioner Bell seconded. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Mr. Wilken, Mr. Short, Mr. Sheldon, Mr. Arvin, Commissioner Bell, and Commissioner Butcher voting yea. Mr. Felix voted nay.**

**8C. Resolution No. G11-05 Making emergency regulations related to the Loan Participation Program permanent**

Mr. Leonard summarized this regulation stating that at the January 31, 2011 board meeting emergency regulations were passed dealing with setting interest rates for taxable and tax-exempt loans and this resolution would make those rates permanent. The variable rate loan basis points were increased from 100 to 200 basis points over the federal home loan bank index and the floor based on the variable rate loans were changed from 185 basis points to 290 basis points. He informed the board that more of these emergency regulations will be coming to the board based on changes in the economy since the board is the rate setting committee for the agency. By doing emergency regulation, the effective date is shorter and has positive affect to the finances of the AIDEA faster.

**MOTION: Mr. Short moved to approve Resolution No. G11-05. Mr. Arvin seconded. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Mr. Felix, Mr. Wilken, Mr. Short, Mr. Sheldon, Mr. Arvin, Commissioner Bell, and Commissioner Butcher voting yea.**

**8D. Resolution No. G09-01B Building Maintenance, Amended**

Mr. Leonard gave the board the background on the original resolution that was brought to the board in May of 2010. Due to increased staff and to bring better efficiency to the organizations, the board approved \$1.6 million dollars to do modifications to the AIDEA/AEA building.

He continued to explain that once AIDEA started going through the process of getting architect plans and building modifications, the environmental portions dramatically increased in price. Mr. Leonard stated the request for an additional \$1.2 million to make the modifications.

Mr. Bjorkquist brought forth a correction to the original resolution of G09-01A. On the third line of the second whereas clause it states fiscal years 2009 and 2010. Instead it should be fiscal years 2009 through 2012 as originally approved as stated on page 2, section 3.

Mr. Wilken asked about the contingency. The original estimate at 10% conceptual design shows a contingency was 25%. Mr. Wilken stated that at present it is at 65% conceptual design. He asked about contingency percentage.

Mr. Reiche said that AIDEA received a new architect's estimate at 65%, which increased by \$80,000. Mr. Reiche stated there is a trend towards the architect's estimate increasing, which in effect, reduces the contingency. Mr. Reiche stated staff will have one additional estimate before we bid the project and receive a market price. He indicated staff is hoping that the bids are competitive and come in well under the architect's estimate.

Mr. Wilken asks if these building modifications anticipate changes in the mission of AEA that may or may not be brought forth by the pending legislation.

Ms. Walker answered that the projected increase of the internal expansion, creating more offices, creating a board room that is better suited, additional conference rooms, are intended to fit current employee level and several more relating to the expanded mission for AEA. However, employees identified with the Susitna project would not be able to be accommodated in this building. Ms. Walker stated that one of the fiscal notes takes the project office for Susitna into account with leased space, not in this office.

Mr. Wilken said he was not comfortable with AEA undertaking the biggest project it has ever done from a satellite location.

Mr. Leonard confirmed that the Susitna project is planned for a satellite location.

Mr. Wilken commented on page two, paragraph five, starting with, "The building upgrades will reduce energy costs." He indicated this statement should be backed up with supporting information.

Mr. Leonard said that information can be e-mailed to the board.

Mr. Wilken asked for a clarification on the second to the last paragraph that stated the staff intends to use the existing building management contract to implement a portion of the proposed work.

Mr. Reiche stated the building manager PTP is assisting on a small part of the remodel, which means that they bid the work and they are managing the general contractor. They may participate during the bulk of the remodel with contract administration and inspections.

Mr. Wilken asked if PTP is the firm that takes care of the maintenance and operation of the building.

Ms. Walker said that Karl Reiche is the project manager. AIDEA intends to go out for construction proposals and solicit a construction contract. Ms. Walker stated that Karl will be managing the overall project. She indicated AIDEA may utilize the services of the existing manager but they will not, in her understanding, have the overall responsibilities.

Mr. Sheldon brought up the fact that we shouldn't discuss what we are willing to increase our budget to in a public venue when we are going to be looking for public bids in the future to fulfill these requirements.

Mr. Bjorkquist agreed that when you're getting into the specifics of what the authority would be willing to pay, and in particular if you're in a pre-negotiation type phase, then executive session could be appropriate.

Mr. Wilken stated he would like to see more numbers and better numbers for a future discussion.

Mr. Sheldon suggested that the board reject this resolution and the increase that it contemplates and come back at a future meeting. He asked Ms. Walker if this renovation is set in stone already and the board is merely just stamping an increase.

Ms. Walker answered that it is not. She stated that we cannot proceed under the original authorization, given the increase in costs. When we did the preliminary design estimate amounts last year, there were no architectural services per se, and now there are a lot more people than originally intended. We found a number of things that had not been identified: ADA upgrades, we know there's asbestos, there's additional costs, and it is a 40 year old building, so by no means does it have to be voted "yay."

Mr. Short asked if these are currently under contract or if AIDEA will go out to bid for the additional asbestos, and if it will be a competitive bid process for the lowest bid possible.

Ms. Walker answered in the affirmative and said staff did not want to go out to bid given the fact that staff believes the costs would be above the original board authorization.

Mr. Short stated that the fact that the board has given an authorized amount does not mean that that's the amount that's going to come back in the competitive bidding process.

Mr. Leonard said that this resolution means that we could not go over the amount that the board agreed upon.

Ms. Walker said this is AIDEA money. If we don't spend it, we keep it. So the incentive to spend to the budget just isn't there. We understand this is a lot of money, we understand that this building is never, even with modifications, going to be the perfect office building because of the constraints of the original construction. However, we're trying to make it workable. We've have doubled staff since we moved into this building. We weren't in the basement, we had empty offices. We've added offices. This will be adding more, more conference rooms. It's trying to make it work. There are other alternatives - leasing, in my opinion, is just totally too expensive; possibly purchasing an existing building. My sense, the numbers that I've run, would indicate that this would be still the cheaper option what with the proposal before you today.

Mr. Leonard commented that he thinks that if the board isn't comfortable with the numbers that we have right now, staff could come back with more numbers that would make the board feel comfortable. Mr. Leonard stated that the timeframe is just a timeframe, and that the board does not have to react today.

Mr. Sheldon said that we need to watch some of these areas very closely and that we essentially contemplated an open session certain variances on certain areas where perhaps the funds wouldn't be spent. He stated his discomfort primarily resides in those areas. He indicated that if this board were to remove or - not necessarily move itself into executive session, but I'm interested myself in having maybe a mild reboot until the next meeting - that he would entertain a motion to do that so that we did not have quite so much granularity out in the public space and we can reconsider these items to be good stewards of our own funds.

**MOTION: Commissioner Butcher made a motion to table this resolution until the next AIDEA board. Mr. Wilken seconded.**

Mr. Wilken asked Mr. Leonard if AIDEA is constrained by municipal parking code in pushing the existing building out to house the Susitna people, or whomever. He is concerned that if AIDEA spends \$2-3 million, at the end they may wish they would have spent more and done a better job, if indeed AEA is going to take on a project that has a 20-year life. Mr. Wilken asked that people think a little bit bigger. He indicated that maybe there is a way to push the building out to add whatever space has to be added.

Mr. Leonard stated that this can be looked at. He expressed concern about being under constraint on the parking spaces. He said that a challenge is the uncertainty of how large AEA will become. He asked Ms. Walker if she had any numbers.

Ms. Walker said that in the fiscal notes, she believes there are ten identified positions.

Mr. Leonard said that once this process gets going, he is sure that number will start to multiply as they move forward. So, in two to three years it could be a totally different number of employees.

**Mr. Sheldon said these are all items to take under discussion. He called for further discussion on this and hearing none, the motion was to table the discussion. Hearing no objections, the motion has been tabled until the April 20, 2011 meeting.**

The board took a short recess at 11:52 a.m. and reconvened at 12:05 p.m.

Roll call was taken and a quorum was established.

## **7E. Resolution No. G11-06 Sitka Fish Waste Processing Plant**

Mr. Leonard introduced the resolution which would give the authority approval of initial funds for the development of the Sitka Fish Waste Processing Plant and engagement of SMOG, LLC as the user. SMOG stands for Sitka Meal Oil and Gelatin. AIDEA has been involved in looking at this project for the last six months. AIDEA has a reimbursement agreement with the developer in looking at the process and AIDEA is at the point that we need to invest some initial funds to insure that we have enough information to go through the complete process. Mark Schimscheimer and Mr. Hemsath will go through the project with you to know where we are at and to answer any questions that the board may have.

Mr. Hemsath said that Resolution G11-06 is a continuation of the previous Resolution G10-05, which was for due diligence. Due diligence is substantially complete. Included in that due diligence is that a market analysis, a variety of stress analysis on product price and processing capability, supply agreements including, as heard earlier today, from a regional supplier of fish waste, review of the technology and a review of the estimates.

The project specifically is AIDEA will own and operate through SMOG, LLC a fish waste processing plant that will process approximately 15 million pounds a year of fish waste product, with the capacity of possibly even up to 30 million pounds a year. This fish waste processing will create a value added product, including fish meal, fish oil, fish gelatin, chondroitin, a whole host of nutraceutical products that there is a significant world-wide market for. Staff believes that this project meets the mission of AIDEA in terms of economic development, not only through jobs, but the project itself, as also heard this morning and through some of the letters in the packets, are key to enhancing the southeast fishing industry, which is approximately a billion dollar industry.

That enhancement comes in the creation of a value-added product, which is a new revenue stream for that industry, as well as meeting certain environmental challenges that are there with regards to the disposal of fish waste and keeping our fishing industry competitive in the southeast. Specifically in Sitka, it also resolves a problem that two of the suppliers of product have right now which is an issue with the FAA and disposal of fish waste and bird strikes as some of the things that are occurring. So it meets a very immediate problem there, coming to the attention of FAA. One last thing as it relates to economic development is the project itself, while not dependent on, will provide a base load for the Blue Lake Hydro expansion that fits in the region, which also brings and continues a long stream of economic energy costs for the region which would enhance other economic development as it comes along. This project meets a really large and broad aspect of economic development.

The resolution is for initial release of funds, specifically for engineering legal support which will result in conceptual design, then solicitation for the procurement construction of the plant, bid review and negotiations for the procurement of land which the plant will sit on. This is schedule critical, and part of the initial release of funds is specifically to move into the design phase to allow a February 2012 startup of the plant and provide the relief that the fish processors need from some of the environmental concerns going on.

Where we are outstanding on the project, other than this resolution, is the engineering and construction. We are still waiting for a procurement waiver for the professional service agreement, which is a sole-source agreement. A comment might be made here if AIDEA had its



own procurement regulations this may have been alleviated. We also need to solicit, review and advice from the City and Borough of Sitka. We know that the City and Borough is in support of it. They've passed a general resolution on the fish waste and you heard from Gary White this morning, as well as a resolution authorizing the City to sell land to AIDEA specifically for the project. Statute requires a review of specific solicitations, as well as a finance plan for the overall funding of the project in total of \$9.1 million which we will be doing through bonding.

We've acquired services and bond council. During this period we're paralleling with engineering to complete the development of the bonding as well as determining how to handle the accounting for the first year commissioning and startup costs. We will have two chances to review the costs. The first is after the engineering is done for the conceptual review, which will verify and validate the \$8 plus million in capital costs that we assume for the plant and then again after the bid process itself. Both these points also allow for termination of the user agreement which we expect tomorrow. We will define the user agreement as a reimbursement agreement for the \$450,000. Our revised evaluation will occur prior to coming to the board for request of release of the balance of funds which we anticipate to be in late May, possibly June. As you've heard today, and in your packet, the project has both the support of both the business and community. Staff feels that this is an excellent project. It applies an existing technology in a new way and enhances the fishing industry. Mr. Hemsath stated that staff requests approval of Resolution G11-06.

Mr. Wilken asked about Silver Bay Seafoods in Sitka, referring to the investment that the AIDEA board approved in January. Mr. Wilken wondered if there would be a synergy between the two.

Mr. Hemsath said that one of the proposed proponents and supplier of feed stock or fish waste was Silver Bay Seafoods, but that Silver Bay Seafoods, at this time, is not a participant. Mr. Hemsath stated that if Silver Bay wishes to move their fish waste into this facility, there is the potential capacity for them to do that.

Mr. Leonard commented that the loan participation has been paid off.

Mr. Wilken asked if this is the first commercial application of this technology.

Mr. Hemsath said they he wants to be careful on the term "new technology" because it really is a new application of existing technology. Technology for stabilization of fish waste through acid is proven and is being used in Europe to provide stabilized fish waste for animal feed. This technology uses slightly less acid to stabilize fish waste, which allows it to be used for human consumption. The drying technology using drum dryers is faster drying which leaves more nutrients in the fish meal vs. the old technology of plate dryers. It is, however, energy-intensive, which makes the location of Sitka very valuable with the hydro power. The fisheries at Sitka have demonstrated that there is a statistical improvement of the fingerlings' survival rate when fed meal done with this process.

Mr. Short asked if a feasibility plan had been completed, and if so, is it something that can be seen.

Mr. Hemsath said the feasibility or the due diligence is substantially complete and in a variety of pieces. A fairly extensive marketing analysis was done by a consultant. Mr. Hemsath stated that there is a variety of spreadsheets on the stress tests but they are not pulled together in a report

yet. He said that staff anticipates doing that with the addition of the engineering work and the updated cost estimate when there is a release of the majority of the funds.

Mr. Short asked if \$450,000 were put into this project, how much would the previous amount for the feasibility estimate be.

Mr. Hemsath replied eighty-five thousand dollars.

Mr. Short stated that we're going to have somewhere around \$535,000 into this project without having a business plan to make a decision on. He asked if that is correct.

Mr. Hemsath replied that is not entirely true. He said there is a business plan, but in terms of the documents that we provide to the board for the resolution, we've not included the bulk of that document.

Mr. Leonard stated that the \$85,000 is through a reimbursement agreement. If this project does not go forward, it will be paid back by the project sponsor.

Mr. Hemsath added that the \$450,000 will also be in a reimbursement agreement.

Mr. Arvin asked if fish meal is being produced at this plant or if it produces the bulk material and then sources it to others who turn it into something else.

Mr. Hemsath said that this plant will create fish meal, fish oil, and chondroitin.

Mr. Arvin asked if this includes the fish meal that is broadcast over the water to feed farmed fish.

Mr. Hemsath replied that it was, and because of the different seasons and stability it could also be from a salmon stock and the herring stock. The Sitka fish hatchery is very interested in the herring stock. They have done tests on this process of fish meal produced from that and the results showed it made a difference.

Mr. Sheldon noted that the original resolution contemplated researching whether or not there was licensable technology in relation to this. He asked if there is licensable technology.

Mr. Hemsath replied that the research we've done, the answer is "no." He stated that is why the point was made about using existing technology in a new way.

Mr. Sheldon said that before he started he meant to give a disclosure about himself. He was responsible for a group which funded Yummy Chummies. He sees no conflict so he did not recuse himself and doesn't see the need to ask an opinion of counsel.

He continued with his questions and asked about previous meeting minutes that stated Montlake Mining received funding from a private entity. After a discussion, it was determined that the funding was not from a private entity but from Alaska Fisheries Development Foundation.

Mr. Sheldon asked what levels have this equipment been run. He asked if it is a 6 x 6 foot area or a much larger production run.

Mr. Hemsath said the tests have been done at the pilot scale and not done at full-production scale. He said we are moving from a pilot scale facility to a production scale plant.

Mr. Sheldon asked if there a phasing in or if this is the jump. He wondered if this doesn't work what would happen to the equipment.

Mr. Hemsath replied that it is phased in as the plant begins one train after another. Staff felt that the entire first season of operation is best classified as a start-up and commissioning as they work their way through that. With the equipment, it is intended to buy used equipment mostly because the drum dryers are already cured. If the process doesn't work, some of the options would be modifying financing, amortization, sale of equipment or salvaging the equipment.

Mr. Sheldon asked about the advanced costs. He stated we have been discussing what the \$450,000 goes to, and asked what the remaining \$430,000 is set aside for.

Mr. Schimscheimer said the \$880,000 funds include the reimbursement agreement which has already been approved and the money is spent. It also includes all the construction administration that this project would take through the completion of construction. It includes independent engineering analysis that would need to be done into the future and it includes the professional services agreement with these gentlemen. This is on a time and materials basis that if this project stops at any of its contract termination points, so does the money.

Mr. Sheldon asked if we have people that are experienced in this area on staff, in fisheries, and these sorts of exact projects or if we are relying on the two gentlemen promoting the process.

Mr. Schimscheimer replied by saying AIDEA doesn't have anyone on staff with any great depth of experience in this field, but we are going to retain experts in the field as AIDEA's independent engineering experts, to oversee this project. That's part of the upfront costs. While we have a professional services agreement with two gentlemen that is necessary because they are the holders of the process, we will be watching them with our own independent experts.

Mr. Hemsath added there are a number of checks and balances that the scale-up is confirmed with engineering expertise in the fish processing and fish meal business. These are from the companies that build fish processing plants and looking at the design and seeing if it would work.

Mr. Sheldon asked about the \$1,900,000 of cost of operations for Year 1. Has operating capital ever been eligible in a development and finance deal?

Ms. Walker said that in the way the question is being phrased, the strict answer is "as part of the development project." No. We have never done it. My understanding of one of the projects that we worked on, we purchased some preferred stock which allowed for the working capital but it was not part of the development project. It was a preferred stock investment.

Mr. Leonard asked Mr. Bjorkquist if there is anything in the statutes that states that you cannot fund operating costs as part of the development project.

Mr. Bjorkquist replied that it is a complicated question. The statute under the particular fund, specifically allows money to be used by AIDEA for various parts of a development finance project, including operating it. He stated that The Economic Development Account reads, "While money is on deposit in the economic development account, the money may be used only to

finance, acquire, manage and operate development projects that the Authority intends to own and operate.” So the account can be used for those purposes, but when you get into the appropriation issues, AIDEA’s operating budget is subject to appropriation. The capital budget is not, so there is a little twist to it. The other component is, and possible financing for operating expenses, is under the loan participation program where the definition of “project” is broader than the definition of “project for purposes of development and finance” and can include business activity. So it can, statutorily include operating expenses and I believe the other avenue that authority staff will be looking at for purposes of possible financing of that first year operating costs.

Mr. Sheldon asked to have access to feasibility studies as part of the board’s packet in the future.

Mr. Felix asked if AIDEA has an obligation to ensure that there is proper accounting treatment for those by the receiving entity.

Mr. Hemsath said yes, but again, in this specific resolution, we are looking at \$450,000 specifically for proceeding with the front-end engineering design to the bid phase. The application of some of the operating capital and accounting aspects is something that we are looking at as part of the completed analysis.

Mr. Felix asked if it was appropriate to put some sort of gate or measurement in there in order to get access to that \$1.9 million of operating costs. They have to complete it for the money that’s being loaned, otherwise we may set ourselves up for the receiving entity to borrow against that operations fund to complete their project and that is pretty dangerous territory for us to be in.

Mr. Hemsath said yes, that part of the reason on the initial funds is to provide an aspect of that gate. Instead of requesting the full \$7 million or \$8 million of capital costs, we’re requesting approval for the initial fund at year end so we have a better scale or definition on the estimate. Other gates would be appropriate in terms of anything we achieve. Even though we’ve got a bid to do the project, we could put a gate in relative to capital equipment to make sure that we don’t have those cost overruns. The \$1.9 most definitely will be reserved for those commissioning and startup costs as opposed to being used to fund the operating costs.

Commissioner Butcher asked what would be the effect of delaying this decision to the next board meeting.

Mr. Hemsath said we would miss the equipment procurement aspect and the majority of the 2012 season, which not only put the processors that are supplying the waste at a certain amount of risk, but delays the revenue a full calendar year.

Mr. Hemsath stated that in two weeks staff can assemble a report that hopefully will bring the board up to the same level of comfort we have, both with the market process and the economics behind it.

Mr. Arvin stated that farmed fish is illegal in Alaska. Mr. Hemsath explained that the salmon fish meal specifically is not to a salmon fishery, it is going into trout. The herring and the fish meal, relative to the hatchery, is not farming fish, it is growing fish which then are released into the wild. This project doesn’t create feed for farmed fish. It is a trout hatchery for the salmon and for the herring that’s produced in the area.

Mr. Schimscheimer talked about the independent marketing study that was conducted by an industry expert through our financial advisor. The results showed that there was quite an extensive market all over the country and world for lots of different products that you could go to. It is not the intent of SMOG to sell this but they have been approached by a lot of different companies that could turn this into pet food for dogs and cats, for cows, and the whole nutraceutical market is very large.

Mr. Hemsath said SMOG would be for a broker who turns the product around to those that wish to buy it.

Mr. Felix said that one of the key responsibilities we have as a board is for economic development. It's helpful to understand market issues and sensitivities relative to the risk of the portfolio, but there is also a very, very fine line between being a developer that understands market risk and being a market maker, or creating barriers to markets and we've got to be careful as a board not to do that.

**MOTION: Mr. Short made a motion to table this resolution until the next AIDEA board meeting in two weeks. Mr. Felix seconded.**

Mr. Wilken wanted to get a firm commitment from the staff that in two weeks they will be prepared with this information. Mr. Hemsath confirmed.

**A roll call vote was taken and the motion to table the resolution passed unanimously with Mr. Wilken, Mr. Short, Mr. Sheldon, Mr. Arvin, Commissioner Butcher, Commission Bell and Mr. Felix voting yea.**

#### **8F. AIDEA Investment Policy Update**

The final item under New Business is the new inserted agenda item.

Jeff Pantages, the chief investment officer and Chris Brechbuhler, the portfolio manager from Alaska Permanent Capital Management along with Kelly Cliff from Callan were present to continue the discussion started at the work session on February 23, 2011.

The discussed items were to possibly make a change to the investment policy statement. One option was to limit or preclude the investment in GSE's and talked about how the investment managers felt they would be impacted and how costly or how disruptive that would be to the portfolio to make those changes.

They discussed the government sponsored agencies, Freddie and Fannie Mae, and the credit worthiness of these two agencies. Historically these two agencies have had an implicit guarantee by the government as to supporting their programs, but they have not had an explicit guarantee, and that is why the credit-worthiness question has been brought up. Ginnie Mae is another entity that actually does have an explicit guarantee similar to the US Treasury's.

Other factors were suggested as to leaving sufficient room in the investment policy statement for the investment managers to continually succeed with investment results, which they have for the authority. Also, should the GSE's read that Fannie and Freddie be excluded, maybe Ginnie Mae's would still be included?

The board decided they would like to have the discussed proposed options in front of them at the next meeting and have the experts come with some recommendations

## **9. DIRECTOR COMMENTS**

### **9A. Director's Status Report of AIDEA Programs and Projects**

Mr. Leonard pointed out the reports on loan activity and delinquency reports, and the project updates in the board packet.

### **9B. Next regularly scheduled AIDEA Board Meeting is Wed., Apr. 20, 2011**

## **10. BOARD COMMENTS**

Mr. Bjorkquist gave a preliminary report on the question of liability of board members. He discussed this with his colleagues and the view is that immunity from 9.52-53 would apply to board members. He is still looking at that and at the legislative history. If it's the least bit unclear, he is going to suggest that AIDEA request a formal AG opinion so there will be something in writing.

Mr. Bjorkquist reported that what that does is cover state employees, which can include board members, while acting within the scope of employment and covers any type of claim that might be made with the exception of constitutional violations or statutory claims which impose liability on an employee. An example would be the executive branch ethics act. If you have a conflict of interest in a financial conflict of interest, you can have an obligation to return gain obtained through your office. Even if the statute didn't apply, there's also the common law which provides qualified immunity for discretionary acts within the scope of authority done in good faith and without malice and corruption. That covers errors in judgment, errors in interpretation of what law applied, basically as long as you're acting in good faith and not corruptly or with malice, you're covered at the first step.

The courts look at what is the action involved, what is the nature and importance of the function, what is the likelihood of suits against the employee, and what is the availability of other remedies or forums of relief. They look at those three things to determine whether immunity applies or not. With the board and it's conduct, focusing on that last one, the availability of other remedies or forums of relief, the board's actions here are decisions of AIDEA and people have the ability to go to court if they disagree with a decision and so, there is an alternative forum of relief and so therefore, the court would be more likely to grant immunity than less. The nature and importance of the functions, you're making decisions for AIDEA, important functions, at a board level, that type of thing and the likelihood of suits that should be just discouraged because nobody would volunteer for a board if suits were allowed. Mr. Bjorkquist said he is pretty comfortable in saying that there should be immunity for board members in what they are doing, as long as you act in good faith, and you make sure that that's your mantra as you're going forward.

Mr. Bjorkquist said he will have something in writing one way or the other when it comes to a conclusion.

Mr. Arvin publicly thanked the Governor for his appointment to this seat. He said he is ultra-sensitive to the question of how far the board's authority reaches into opportunities that are brought before it.

**11. ADJOURNMENT**

There being no further business of the Board, the meeting was adjourned at 1:25 p.m.



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