Alaska Industrial Development and Export Authority
**BOARD MEETING MINUTES**
**Thursday, March 31, 2011**
Anchorage and Juneau, Alaska; Phoenix, Arizona; Peru; Taiwan

## 1. CALL TO ORDER

Acting Chairman Mike Felix called the meeting of the Alaska Industrial Development and Export Authority to order on March 31, 2011 at 9:35 a.m. A quorum was established.

## 2. ROLL CALL: BOARD

Members present in Anchorage: Acting Chair Mike Felix (Public Member); Jerry Burnett (Deputy Commissioner, Department of Revenue); and Hugh Short (Public Member).

Member participating from Juneau: Susan Bell (Commissioner, Department of Commerce, Community, and Economic Development).
Member participating from Taiwan: Ron Arvin (Public Member).
Member participating from Peru: Robert Sheldon (Public Member).
Member participating from Arizona: Gary Wilken (Public Member).

## 3. AGENDA APPROVAL

The agenda was approved as presented.

## 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); 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: James Browning (Alaska Fisheries Development Foundation); Dennis Fenerty (Groh Eggers); Rob Zuanich (Silver Bay Seafoods); Peter Stitzel (Sitka Meal Oil & Gelatin (SMOG); Erik O'Brien (Southwest Alaska Municipal Conference (SWAMC); and Mark Gardiner (Western Financial Group).

Others attending via conference call: Brian Bjorkquist (Department of Law); Mike Rust (National Oceanographic & Atmospheric Association (NOAA) Fisheries); Jeff Backlund (North Pacific Seafoods); Mark Palmer, John Hanrahan and Jan Koslowski (Ocean Beauty Seafoods); Pete Nicklason and Harold Barnett from (NOAA Fisheries, NW Fisheries Science Center); John Lotzgesell (Silver Bay Seafoods); Garry White (Sitka Economic Development Association); Pete Lanzendorfer (SMOG); Pat Clancy and Kieu-Oahn Nguyen (Western Financial Group); and John Winther (former AIDEA Board Chairman).

Joined the meeting in progress: John Woodruff (Icicle Foods).

*Listen to the full audio recording of the 3/31/2011 meeting at http://www.aidea.org/boardmin.html*

## 5. PUBLIC COMMENTS

**Garry White, Sitka Economic Development Association**

Mr. White expressed his full support for the Sitka Fish Waste Processing Plant Project (SFWPP) and stated the community of Sitka is also fully behind the project. He said the City and Borough Council passed a resolution to sell a portion of an industrial park to AIDEA to fulfill the plan to process fish waste. Fish waste in the community has become a real issue due to the proximity of the airport. With two major fish processors in the community, the FAA and the DOT&PF have started coming down on Sitka because it has more airplane bird strikes than any other airport in Southeast Alaska. Additionally, they are getting some pressure from the DEC and the EPA on fish waste discharge. Sitka is a large fishing community and an environmentally conscious community. The town would like to keep fish waste out of the channel and see the fish fully utilized in usable products.

**Mark Palmer, Ocean Beauty Seafoods**

Ocean Beauty Seafoods is a large processor in Alaska and is part owner of a fishmeal plant on Kodiak Island. Mr. Palmer has seen positive effects of being able to utilize fish waste. This is a year-round facility so they have the ability to supply the plant on an ongoing basis which makes the economics work. It is a challenge in other parts of the state that primarily operate seasonally, but they have six other facilities accomplishing the same thing being done in Kodiak. This project is a chance to collaborate with other communities and other processors to find utilization for the waste stream and to meet EPA requirements. It also brings value to the waste stream that is currently being ground up and discarded. Steps have to be taken toward this. If the project works, it can be a model for other areas, like Bristol Bay, and for other locations that have plants. Mr. Palmer thinks there would be willing participants among his competitors. It is important this technology is tested and proven.

**James Browning, Alaska Fisheries Development Foundation (AFDF)**

AFDF has been around 33 years. They started in 1978 after the passage of the Magnuson-Stevens Fishery Conservation and Management Act and were formed to build infrastructure for the commercial fishing industry. They brought Surimi Technology to the Alaska and built the first Surimi shore plant in Kodiak with Saltonstall-Kennedy Funds. They contracted with Beechnut and Ocean Beauty to make the first wild Alaska salmon baby food on the market. A variety of grant funding for promising technologies has been done. AFDF became aware of SMOG and the Montlake Mining Process in 2007 and funded approximately $200,000 demonstration scale project for the technology. As a result of that, approximately eighteen major processors came to observe the technology and were impressed. Since then, they have supported the technology. Mr. Browning stated that in Sitka meetings, many people were nodding their heads in agreement regarding the need for a plant like this. There may be some folks in the industry who have salmon oil plants and they may not want the competition. However, he pointed out that this technology is using the entire waste stream and therefore, comes closer to full utilization of what is harvested from the ocean. This technology can bring a value-added industry to many other parts of the state. There are other plants aware of the technology who are watching but do not want to be the first to build the plant. Mr. Browning feels there will be spin-off benefit to other areas of the state from this project.

**Mike Rust, NOAA Fisheries**

Mr. Rust said his laboratory co-developed the Montlake Process with this group and said that this is an issue beyond Alaska. Fish waste is a national issue. There are areas in the Pacific Islands, east coast, west coast, and Gulf coast that all produce small amounts of trimming waste and this process has a lot of universal application. NOAA and the nation are watching and Alaska is a great place for it to start.

**Rob Zuanich, Silver Bay Seafoods**

Mr. Zuanich is a managing member of Silver Bay Seafoods. They are located in Sitka at the sawmill industrial park where this site would be located. Silver Bay Seafoods is a relatively new company started in 2007. After rejection from other lenders, in 2007 AIDEA made a $2 million dollar loan out of a $7 million dollar project. Mr. Zuanich thanked AIDEA profusely. The loan was repaid in nineteen months. He said they fully embrace full utilization of salmon and herring. This year his plant will process approximately 70 to 80 million pounds of salmon and herring, so waste is an issue.

Silver Bay Seafoods may apply for additional funding from AIDEA in the future. Mr. Zuanich said competition is great and they would welcome a neighbor. However, he asked that they not be precluded from a potential loan application because AIDEA may be part of a business utilizing this model.

Mr. Wilken noted Silver Bay was not one of the processors who signed up to use the new facilities. He asked Mr. Zuanich to expand on why they are not a signatory or are not going to be a supplier to the new plant. Mr. Zuanich said they looked at the plan, the supply agreements, and the possible bonus awards under the program. They currently have contracts to sell large volumes of waste. They grind and freeze at 40 times what a profit bonus and supply agreement would provide and from a profitability standpoint, it did not make sense.

Mr. Wilken said Silver Bay is a beneficiary of the deep water outfall and uses nothing from the City of Sitka. He asked Mr. Zuanich to confirm they can do it themselves and make 40 times the profit on the products as opposed to running it through the new plant. Mr. Zuanich said it is a bit of an overstatement. He knows there is a supply agreement and potential bonus payment starting the third year. He felt that from the economic well-being of Silver Bay Seafoods, the waste has much higher value than what they would receive under the supply agreement.

Mr. Felix said Silver Bay Seafoods is supplying fish waste to another company. Mr. Wilken asked if the other company is based in Alaska. At the request of the board, Mr. Zuanich explained their process. He said the fish waste is frozen and transported in container vans to the Lower 48. They expect to freeze 1.8 million pounds of finished product a day. Silver Bay has a new large facility in Craig, Alaska and opened a plant in Valdez, Alaska last summer, but Sitka is their main hub. Silver Bay is the largest herring and salmon harvester in the southeast. The economics of doing business there is solid and may expand to Craig.

Mr. Felix asked Mr. Zuanich what share of the market they have as a processor. Mr. Zuanich said herring is 40-45% and salmon 30-32%.

**Eric O'Brien, South West Alaska Municipal Conference (SWAMC)**

Mr. O'Brien introduced himself as an advocate for an expanded business environment. He said this sounds like an interesting project and he is just here to learn about it.

**John Winther, Former AIDEA Board Member**

Mr. Winther supports this project because it is very much needed. Fish waste and processing are things of the future but he feels very uncomfortable to have AIDEA assume all of the risk and own the plant. He would like the principals to also invest in it.

**6. OLD BUSINESS**

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

Mr. Stitzel gave a PowerPoint presentation on the proposed Sitka Fish Waste Processing Plant. In his presentation he said 450,000 tons of fish waste is available in Alaska which is equivalent to a billion pounds. There are standard fishmeal plants in Kodiak, Sand Point, King Cove and Dutch Harbor. There are two hydrolysate plants, one in Cordova and one in Ketchikan. Hydrolysate is a liquid fertilizer.

Mr. Short asked what standard fishmeal plants do. Mr. Stitzel said standard fishmeal processing involves grinding up and cooking fishmeal. Decanters spin off the water and oil, similar to making soup. Oil floating on the surface is spun off, clarified, and dried in roto-disk dryers. This process has been around for 100 years. The oil typically ends up in aqua-feeds because it is not food-grade.

Cordova and Ketchikan plants make food-grade oil. They set aside $1.5 million dollars in their budget for collection of heads and guts which can't touch the floor. Salmon oil is very special because it contains astaxanthin, a powerful antioxidant, which can go directly into capsules, but it has to be made in a food-grade manner.

Mr. Stitzel said the biggest problem is that approximately 450,000 pounds of waste each day is produced in a 50-day period, so building a five-million dollar plant is not economical. Three solutions are required to make this economical.

1. Need to find a way to stabilize the material without refrigeration.
2. Need to make sure that the finished production was a higher value than standard.
3. Need to find an economical way to ship the feedstock to a central processing facility.

To stabilize the material without refrigeration, they drop the PH down to around four, to not destroy the protein. It is a very delicate balance. Mr. Stitzel circulated a jar of stabilized fish waste that was at least three weeks old. There was no smell or off-flavor. To achieve a higher-valued product they use a different dryer. Drum dryers are used for approximately twenty seconds to dry. The protein is in much better shape after it is dried so the flavor is much better. Fish oil for industrial grade crude oil can be sold at sixty cents a pound. Pet-food grade oil can sell, if it's not in food-grade, for eighty cents a pound. If it is sold to companies that capsulize it, it can sell for approximately three to four dollars a pound. The only way to get into this market is to collect and produce it in a food-grade manner.

Mr. Short asked if those are molecularly distilled. Mr. Stitzel replied no, they are not and that is what makes wild salmon oil so special. It has to be clarified to get the water content to a halfpercent in order to put in the capsules. They add rosemary extract to keep it stable, but the astaxanthin keeps it stable.

Mr. Short asked what FDA testing is required. Mr. Stitzel said this is called a food supplement. The food supplement world is unregulated. If it is not a food or a drug, then it is a food supplement and there are fewer regulations.

Mr. Schimscheimer reminded the board that the product produced by the fish plant is wholesale, not retail. They will not be producing capsules or jars.

In response to Mr. Short's question about liability, Mr. Stitzel said they will have product liability insurance and it is part of the user agreement. It is the responsibility of the company that purchases the fish waste to meet FDA regulations if they plan to add value by putting it in capsules and pet foods. SFWPP produces industrial ingredients which other companies purchase.

Another part to the high-value product is making a chondroitin-rich gelatin. It is made from cartilage-rich snouts vs. bovine tracheas. He explained production and said the plant would produce stabilized fish waste, fish meal, and fish oil and gelatin. This product was tested in eight states with ten different fish: White Sea Bass in California: Red Drum in Texas; Pampano in Florida; Cobia in Virginia; Rainbow Trout in Idaho; MOI, Steelhead and Domsea Coho in Montana; and Kampachi in Hawaii. Mr. Stitzel explained how the gelatin is made and showed the design of the plant, equipment used, and volume the plant would produce. He said six-million pounds will come from Sitka, ten-million from Petersburg and Excursion Inlet, five-million from Juneau, seven-million from Wrangell and another five-million from Petersburg is available. The plant will have the capacity and the ability to process these amounts.

Mr. Felix asked where the fish waste presently goes. Mr. Stitzel said they are grinding and discharging it. In the future, the EPA may not allow Juneau or Petersburg to grind and discharge into the water. These cities will then be required to barge and discharge. Each one of the companies is facing the same issue as the entire industry, which is, what to do with the fish waste.

Mr. Leonard said it costs Juneau processors approximately $90,000 to $100,000 a year to barge and discharge the fish. Mr. Stitzel said this translates into five to ten cents a pound. Freezing fish waste makes sense for only a few processors, like Silver Bay.

Mr. Stitzel said the standing offer Mr. Zuanich referred to has changed. All of the processors will get the same deal. 50% of the cash flow goes back to the suppliers on a pro-rata basis. Mr. Erik O'Brien asked what return they estimate for the waste product compared to the five cents a pound it costs Juneau to discard it. Mr. Stitzel said approximately five cents a pound.

Mr. Stitzel discussed costs of shipping the feedstock using a specially designed twenty-foot van. The biggest cost is loading a container on the barge. The leasing cost of the container and the shipping cost come to approximately three-and-a-half cents a pound. They go from the plant in Petersburg, on the barge, out to Sitka, back on a chassis, out to the plant and then they take that empty and return it back to Petersburg, all for three-and-a-half cents a pound. That is probably one of the most significant developments of this whole process, the logistics which Ocean Beauty contributed a lot of.

The annual fish meal production over the last twenty years has been six to seven million. The worldwide demand keeps increasing for fish meal. Yet pet food markets, the pig markets, the carp, all of these industries are demanding more and more fish meal. Fish meal is a very special protein. It's got a very unique amino acid profile that will grow animals faster than any other protein, whether it's meat and bone meal, soy meal, corn gluten meal, or feather meal. It is the highest order protein they can buy.

The fishmeal market is 1300 tons. The people that produce the wild salmon meal sell most of their product directly to Mars and Purina. Mars is the largest pet food company on the planet. They feed 500 million dogs and cats a day. Nestle-Purina buys both dry and frozen. The frozen product is the market that Silver Bay is going into. This plant will be making the dry. This can be sold directly to these large companies or to a very large feed and meal trader. This will be done in food-grade manner and would sell directly to people rather than to an animal someday.

Fish oil is the other market and it's also fixed. It can sell for sixty cents if in crude, and the aquaculture market buys it for sixty cents. Pet food grade is approximately 80 cents. The human nutraceuticals sell for approximately $3 dollars a pound to a giant clearing house, the J. Edwards Company, and then they do the bottling or the capsulate for these companies. There is a hug fish oil shortage looming. Every doctor says to either eat more fish or take fish oil capsules. Twenty-thousand tons of fish oil was sold in the human grade in 2001. In 2009 that increased to 90,000 tons. Five hundred tons of wild salmon oil is now sold.

Mr. Short asked what price he used for their 2011 and 2012 income statement. Mr. Stitzel replied the price is approximately $1.50 a pound. Mr. Short then asked if they are going to sell a blend between nutraceutical and pet food grade. Mr. Stitzel said that it will all go nutraceutical.

Mr. Hemsath added that the pro-forma used was based upon a range of twenty projected market prices for the fish meal, the oil, and the gelatin. They would all use the low range. The salmon oil for the low range was $4,000 a metric ton and $1150 per metric ton for non-salmon oil. The bottom range price was used on what the market was in October and the market has firmed since then.

Mr. Felix asked how large this market is. Mr. Hemsath replied he doesn't know about the nutraceutical market but the fish meal and fish oil market is approximately nine billion pounds a year of which this facility is going to produce probably less than three million pounds a year.

Mr. Stitzel added that salmon oil is a very niche market. Mr. Short said that it is very important to the business plan then, so if you don't have one of those three products you're toast. Mr. Stitzel replied no. If he could not sell this for $1.50 a pound, he would blend it back into the fish meal. It is worth .85 to .90 cents there.

Mr. Short quoted from the Tony Bimbo documents on page 80 "In order to penetrate the nutraceutical market it will be necessary, at a minimum, to meet the voluntary monograph specifications for fish oils as shown below." This consultant said, at a minimum, these requirements need to be met on dioxins, PCBs, lead, cadmium, mercury, arsenic etc. Mr. Short asked how these requirements are being met.

A discussion ensued about what tests are done and how often. Mr. Stitzel said the testing is minimal because tests were directed toward the Europeans where much of the fish that are caught are contaminated. Being in the Northern Pacific vs. the North Atlantic, there is no industry that contaminates the fish. Very few of the seafood companies, whether they are in food-grade or animal pet foods actually do those tests. In the twenty years of being in fish meal production he stated he never went through a PCB or a dioxin test. However, it is the buyer's responsibility, the J. Edwards and such, to test the incoming product of all they buy. Mr. Hemsath said the pro-forma has a line item on quality control, so there is an accounting for having bodies on hand to do the testing. As they go through the next phase, those requirements will be better determined.

Mr. Short wanted to highlight the importance of this point. If AIDEA is going to get into the business of operating a SMOG plant and there is not a good understanding of the quality control and the necessary requirements of the wholesale market, and there are no clear answer to that question, then it is a problem. There are serious liability questions when selling something that is humanly consumed. AIDEA will have a liability on the books at that point until AIDEA can own an LLC. This is a new era of investment and the board has to be very careful to not expose AIDEA to some sort of liability.

Mr. Leonard said that in the final due diligence report and plan, those questions will be answered.

Mr. Stitzel continued his presentation with the chondroitin sulfate gelatin market. A company in Sioux Falls, South Dakota takes approximately 100,000 pounds of bovine tracheas a day. They start at 1% pure and then extract the sugar. It is a carbohydrate, a sugar, and they produce it to 90% purity and then sell it to companies like Alfa Chem or AHD International. This plant will not need to purify it because it can be sold directly to the pet food market at 6% pure chondroitin sulfate which is excellent for pet joint health.

The average profit of a fish company is ten cents a pound on a good season selling wet fish. The SMOG plant cost is approximately twenty-one cents because it is a dry product plus the fish cost is zero. Once AIDEA is paid, the processors and the sponsors will share in the profit. The processors will receive 50% and Mr. Stitzel and his partner will each get 25%. This structure is open to any processors.

The biggest risk of running a fish plant is paying too much. For this plant, the tender cost is what needs to be kept low. An option is to charge a tipping fee or a few cents to process if that becomes necessary. There is approximately an eleven to fifteen cent cost to goods sold. Any other additional material from Juneau pre-deferred or Wrangell will have zero overhead to it and so the profit would be approximately ten cents. Once AIDEA is taken care of, it should be around five cents a pound. This plant would only have three suppliers and they service over 950 fisherman. This plant's season is longer at 90 days vs. a normal seafood company at 60 days because of storing the product.

Mr. Wilken asked about the EPA's demands and their influence into this. Is there anything official or is this just conversation from them? Mr. Stitzel said there is nothing official yet. The EPA goes through this threatening stage. They do an economic impact study and ask questions about costs to barge material etc. Then they take public comment. They might have their new rule in place either this fall or next year. Mr. Wilken asked is this being held out of the northwest EPA or the EPA out of Washington, DC. Mr. Stitzel said the DEC has primacy to take care of all these regulations but the EPA doesn't trust them, so the EPA out of DC is doing this. Mr. Wilken asked if it was in conjunction with DEC or in place of them. Mr. Stitzel replied he would say in place of them. Mr. Wilken asked even though we have primacy? Mr. Stitzel said I guess that doesn't mean primacy, does it?

Mr. Wilken asked when this effort began. Has this been ongoing for years? Mr. Stitzel said it started over thirty years ago with Senator Stevens. With the clean water act in '76, it forced all of lower forty-eight plants to deal with their fish waste, but Alaska, through Senator Stevens, got a pass. Since that time plants have been built here. The challenge now is short seasons. Mr. Wilken asked if this current effort, on behalf of the EPA, is just a continuation or a maturation of what's occurred over the last decade. Mr. Stitzel said this has been going on for the last three decades and he would not call it maturation. AFDF sponsored a conference for the entire industry. All of the industry sat down with the EPA and the DEC earlier this summer and filled them in. Mr. Wilken asked that someone find the date of when the EPA is expected to make a decision.

Mr. Sheldon read from a document dated March 18, titled "Frequently Asked Questions" created by project sponsor Peter Stitzel, in section 2 under the heading "Winners and Losers" "We have received word that Arctic Paws of Anchorage and Alaska Protein Recovery have identified themselves as Alaskan companies that may be hurt by this facility." This concerned him as he has a small, less than 1% of his net worth, position in Arctic Paws. If this assertion of fact were true, he feels he should potentially recuse himself from the rest of this process. He contacted Arctic Paws executives for confirmation. They denied that they would be harmed by SMOG, and they never identified themselves to anyone that they would be harmed. He is disappointed in this inaccuracy that was left unchecked by staff, and if it were not checked by him, it may have led him to remove himself from this process, thus denying the board one of its member's votes, and the public of his opinion. He asked Mr. Stitzel, to explain who told him or what documentation he received to substantiate that Arctic Paws might be impaired due to the SMOG LLC and just might cause a collateral effective removal of a director from this process.

Mr. Stitzel replied that at the last board meeting of March 2, Mr. Sheldon brought up Arctic Paws. Mr. Stitzel was not aware that Mr. Sheldon owned a piece of that company, but said that Mr. Sheldon mentioned Arctic Paws and felt that, in Mr. Tetzel's interpretation, this company may be threatened at some point. Mr. Sheldon said that was incorrect. He didn't say such a thing and was merely disclosing his interest at that point in time. He was very disturbed, that in a formal tract of frequently asked questions, this showed up as an assertion that "you have received word." In the future, he would like citations.

Mr. Leonard said to Mr. Sheldon that it was not posted to the general public and are not using the sponsor's statement in any of the preliminary analysis. It was not based in the analysis. It was a sponsor's view only. Mr. Sheldon stated that if this authority is going to be an owner of something of which AIDEA has complete liability, the board cannot merely take these people at their word.

Mr. Sheldon asked Mr. Stitzel to describe how this sixty year old process is some sort of a technological advance. Mr. Stitzel said there are three of them. One is that if you stabilize fish waste the way they do in Europe, they add approximately 3 to 4% chemical. His company adds approximately 1% as to not destroy the protein. They destroy the protein but it is okay because it ends up in pig feed. No one adds that little amount of chemical like they do and then still dries it. The second is the way they extract that Chondroitin-rich gelatin out of the salmon head. No one does that. Third, they process it on drum dryers.

Mr. Sheldon asked if staff approached the Alaska Fisheries Development Foundation as a group for their participation in this project. Mr. Hemsath gave background of what Mr. Sheldon was referring to. The AFDF asked, by letter, for twenty seafood processors to meet with them for a demonstration which generated a great deal of interest. The question being, why AFDF is not participating in an equity position?

Mr. Browning, who was the author of that letter, was present and replied. He said this technology was unique because of the preservation of protein and the cessation of bacterial vital action, therefore allowing the product to be stabilized and stored. That capability was a major point because of the storage and transportation cost issues associated with remote, western Alaska communities. He noted the technology is definitely unique. There was a great deal of interest generated by the processors signing up for an appointment and coming to Montlake lab to see this process and there is currently interest on the part of the processors to see this technology move forward. They have various reasons why they have not had their checkbook out at this point. They want to see it work. He chose not to speak about why the processors are not initiating investment in plant building, but stated this process has a lot of support from industry and said AIDEA can address the question to them.

Mr. Palmer from Ocean Beauty Seafoods said there is a market value for waste. There is a current market for frozen in the pet food, and a market for oil. He does not see how the board can consider the waste stream that they have committed to for the next five years to have no value. There is a value that they are committing their waste streams as processors to this venture, where they will get no return on it until AIDEA has gotten their return. They do not get a penny. AIDEA is first in line for the value of their waste stream and that is a serious commitment on their part. He also committed to support quality control with an extensive quality control staff, as well as many of the other two processors. In Sitka he will assist in the quality assurance and product specifications that were talked about earlier and they have already invested in the logistics support of this operation and design of those containers. They have a lot of expertise that they bring to the table, and if this were a grant, an in-kind match or anything else, this would be considered an investment.

Mr. Felix said no one suggested there was no value. The question was if there was value, why haven’t other people signed on for an equity position.

Mr. Sheldon asked staff why they did not address his questions in previous meetings about the $1.9 million dollars in the next, non-traditional and non-conventional financing process that he asked them to do. He wanted to know why his questions were not addressed. Mr. Leonard stated he was planning on covering this in his presentation. The 1.9 is identified on how that will be funded. It will be funded through a loan-participation for the working capital. He will cover that in his presentation and preliminary due diligence.

Mr. Short directed a question to Mr. Palmer. You mentioned the waste stream for three years and the quality assurance, and the quality control you’re going to provide. If you were going to put a value on that or an opportunity cost for entering into this venture, what would that value be? Mr. Palmer said the value depends on where it can be shipped from and the logistics. For the pet food industry and what they are willing to pay, a nickel return is possible, as was referred to earlier for the frozen market. But if that facility is in a remote part of Alaska, that could be a negative return just from the logistics alone. If something is approximate to the highway system, and the waste stream, it’s somewhere between two and five cents a pound, depending on how close you are to the market. There is a financial value to that. As far as quality control support, he said he would have to get back to the board to give some kind of an hourly rate of what those services could be contracted out. He has not thought that through specifically, but is putting his financial where-with-all toward the support and future success of this. It is important to him. He doesn’t want to see a failure either.

Mr. Short stated we are talking about Sitka and about the fish that would be put through this plant. In simple math, it is what is the cost of doing something else with this fish versus entering into this agreement, times the pounds over an average of the past three years. That would be the value. If the value of the quality assurance and the consulting is added in, it seems easy enough to get a number and the board would be interested in getting that. Mr. Short asked Mr. Palmer to clarify his statement of “don’t discard that” regarding value. He asked him how he monetizes that. If this is a grant application with in-kind support, what is the value that is committing to the project? Mr. Short asked that those answers be provided to the AIDEA board as a document so they are able to review it to help with making a decision. Mr. Palmer replied that there is a very established market on the frozen fish waste for pet food and he can do that.

Mr. Sheldon asked Mr. Zuanich from Silver Bay Seafoods for his opinion of what a project of this magnitude would cost him if he put it together. Mr. Zuanich replied they are looking at variations and their project would be more expansive than this project due to the variations. The $9 million dollar request is very sizable and he sees this as a $7 million dollar project. The notion of a $1.9 million in operating costs surely would not be part of any loan application he makes. Mr. Sheldon thanked him and said he is looking forward to getting the request from his company in the future.

**Deputy Commissioner Burnett moved that Resolution No. G11-06 be opened for discussion. Mr. Short seconded.**

A previous statement was made that UDSA was not able to participate because of the non-profit requirement of the program. Mr. Short said the USDA’s Business and Industry Program (B&I) allows “for profits” to get loans and loan guarantees up to 90%. He asked if the option to utilize the USDA B&I program for a loan guarantee was made available. Mr. Hemsath said Dean Stewart from USDA brought the project to AIDEA and said, “We are unable to fund this project and we think this would be a good project for AIDEA’s consideration.” He asked Mr. Stewart if there were any USDA programs that could partner with AIDEA or fund the entire project, and the answer was “no.” Mr. Short said USDA probably could not partner with AIDEA, but was certain there is a way for AIDEA to provide a loan guarantee. The challenge is, USDA requires 20% equity. The 20% equity may not have been available which is why it wasn’t considered by the USDA.

Mr. Leonard reviewed Resolution No. G11-06. Staff is requesting $450,000 to complete final due diligence to determine estimated project costs.

Mr. Felix said that if AIDEA does not do this project, the likelihood of recovering the $450,000 is zero. Mr. Leonard said staff can show why they believe this is a risk-assessed investment and should move forward. Mr. Leonard confirmed that AIDEA will own 100% of the project and SMOG will operate it. This is the same type of development project AIDEA has done in the past, Skagway Ore Terminal, DeLong Mountain Transportation System (road and port at the Red Dog mine) and the Federal Express Maintenance Hangar.

In response to Mr. Arvin’s question about who owns the Research and Development process, Mr. Hemsath said there is no monetized property that is either patented or has a copy write and this was developed through a grant from AFDF to find a specific solution. The Montlake Mining process was created using existing technology in a unique way and SMOG developed a business plan for AIDEA to commercialize the process. As AIDEA goes through the design, build and completion phase, they will own the operating process and procedures.

Mark Gardiner with Western Financial Group said AIDEA's strategic plan is to aggressively pursue a development finance program and look for opportunities in targeted industries and regions of the state with a focus on trade sector industries. This project is at a very early stage but meets the criteria. The development finance program's target is to increase by $50 million per year.

Mr. Short feels it is premature to spend $250,000 on bid solicitation packages, bid responses, and permitting. Mr. Hemsath said the largest risk in this project is capital risk. AIDEA has been working with preliminary numbers and contingencies to determine what makes economic sense. The engineering stage will define the plant design and cost estimates. Information will be gathered to answer Board member's questions regarding quality issues. AIDEA's break point to make a decision will be when approximately $270,000-$300,000 has been expended.

Mr. Felix said the problem he has with this proposal is that AIDEA is the only entity that has equity; if it is such a good deal, why doesn't anyone else have an equity stake, least of all the owners? AIDEA is taking all the risk and the owners are getting all the reward. Mr. Short asked if credit checks and financial background checks were done on the operators. Mr. Hemsath said no, this project is not very different from the Skagway Ore Terminal. The difference is the Sherwood Mining Company had significantly more collateral than SMOG does.

Mr. Leonard said staff believes there are certain development authority projects, different from those found in an investment bank, which would commercialize the technology or bring a value-added product to the Alaska economy worth the investment. It is not based on whether or not there is an equity person involved. It is based on the four factors mentioned in the suitability report. This development is important enough for the economy of Alaska and its trade sector to go forward with the request to the Board to fund the project.

Deputy Commissioner Burnett asked about the commitment of the raw materials to this plant, "Will there be a long term supply contract?" Mr. Hemsath said a ten-year supply agreement for 100% of the waste product from each of these facilities is included.

Based on the presentation, on Mr. Winther's expression of discomfort with regard to risk, on his belief that this is not new technology, and because zero capital is being provided and zero liability is being assumed by the project sponsor, Mr. Sheldon said he would be unwilling to vote in favor of the resolution at this point.

Mr. Short would be willing to vote affirmative if industry and the operators contributed 10% of the $450,000 or 10% of the construction costs as a good-will gesture. It is not unreasonable to ask for $700,000 out of a $7 million project and hoped there would be some willingness to step up to the plate. Mr. Short would not vote for this resolution unless there were additional requirements or an equity injunction.

Commissioner Bell is interested in looking at the next tier and adding language allowing the board to explore Mr. Short's suggestions.

Deputy Commissioner Burnett expressed concern about the lack of equity and does not think all the work has been completed. He would like to go forward but not expend the entire $450,000 at this point.

## 9. ADJOURNMENT

There being no further business, the meeting adjourned at 11:53 a.m.

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