Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Tuesday, July 19, 2011
Anchorage and Juneau, Alaska; NeiHu, Taiwan

1. CALL TO ORDER

Chairman Short asked Commissioner Bell to chair the meeting. The meeting of the Alaska Industrial Development and Export Authority was called to order on July 19, 2011 at 1:17 p.m. A quorum was established.

2. ROLL CALL: BOARD

Members present in Anchorage: Susan Bell (Commissioner, Department of Commerce, Community, and Economic Development); and Robert Sheldon (Public Member).
Member participating from Juneau: Jerry Burnett (Deputy Commissioner, Department of Revenue).
Member participating from NeiHu, Taiwan: Ron Arvin (Public Member).
Absent: Hugh Short (Public Member); Gary Wilken (Public Member); and Wilson Hughes (Public Member).

3. AGENDA APPROVAL

Mr. Leonard asked to move item 7F before 7E so portion of the DMTS (DeLong Mountain Transportation System) issue can be presented in public before going into Executive Session.

The agenda was approved as amended.

4. ROLL CALL: STAFF, PUBLIC

Staff present in Anchorage: Ted Leonard (Executive Director); James Hemsath (Deputy Director-Business Development); Valorie Walker (Deputy Director-Finance); Brenda Applegate (Controller); Mark Davis (Economic Development Officer); Leona Hakala (Loan Officer II); Karl Reiche (Project Development Officer); Aaron Rhoades (Human Resources Administrator); Mark Schimscheimer (Project Manager); Sherrie Siverson (Executive Assistant); Sandy Burrows (Administrative Assistant); Teri Webster (Administrative Assistant); and Joyelyn Sommer (Intern).

Others present in Anchorage: Brian Bjorkquist (Department of Law); Mark Gardiner (Western Financial Group); Tim Bradner (Alaska Journal of Commerce); Dennis Fenerty (Groh Eggers); Sue Painter (Providence Health & Services); Cynthia Weed (K&L Gates); Randy Hobbs (Alpine Energy); Brian Newton (Golden Valley Electric Association); Ray Dinger (Northrim Bank); Ken Vallrugo (Merrill Lynch); and Amanda Coyna (Alaska Dispatch).

Joined the meeting in session via conference: Mike O'Leary (Callan & Associates).

Listen to the full audio recording of the 7/19/2011 AIDEA board meeting at http://www.aidea.org/boardmin.html

5. PUBLIC COMMENTS

Mr. Brian Newton, Golden Valley Electric Association (GVEA)

Mr. Newton spoke about Healy Clean Coal Plant (HCCP) and the current status of the GVEA and AIDEA partnership. This partnership was built to benefit the ratepayers of the state and he thinks the plant has the opportunity to do that. The Healy 1 plant, which is 25 megawatts, sits adjacent to HCCP so it offers some great synergies. AIDEA has been paying maintenance on the plant and it sits in ready status but it will take some money to get the plant running again. Golden Valley has been maintaining the permit and is actively pursuing to get the permit renewed.

Mr. Newton spoke about the asset purchase agreement with AIDEA. Both parties have been working hard to make sure the agreement moves forward. He expressed appreciation for the efforts from AIDEA staff during the last few months and thinks the outside council that is helping AIDEA, Rich Alonzo and Dave Demanski, is a great value to the project. GVEA has been meeting with the Environmental Protection Agency (EPA) and the Alaska Department of Environmental Conservation (DEC) regarding the permit. Because of new federal rules the DEC is going back for public comment for another 30 days. Mr. Newton has no worries regarding that and welcomes all public comments and feels it can help narrow the focus of this project. The DEC will be ready to resubmit the permit back to the EPA in 60 to 90 days.

Mr. Newton said in prior years there was a lack of communication and cooperation between the two agencies. His goal, when he came to Golden Valley almost four years ago, was to make sure that did not occur again. With Mr. Leonard's guidance and Mr. Bjorkquist's direction, he has good hope about this project. He said he has only good things to say about their relationship with AIDEA and wanted to express his gratitude and support in making sure this project goes forward.

6. PRIOR MINUTES – May 25 and June 9, 2011

May 25, 2011 and June 9, 2011 meeting minutes were approved as presented.

7. NEW BUSINESS

7A. Resolution No. G11-14 Providence Health & Services Project

Mr. Leonard introduced Resolution No. G11-14. This resolution would authorize AIDEA to issue up to $150 million dollars of revenue bonds to provide funds for Providence Health & Services construction projects The conduit bonds would be secured only by the revenue and assets pledged by Providence Health & Services (PHS) and not by AIDEA's credit, revenues or assets. He said AIDEA has the bond capacity for this request based upon projected analysis of projects in the next 12 months. This project will create an estimated 85 new permanent jobs and 403 construction related positions.

Susan Painter, treasurer of Providence Health & Services, spoke to the Board regarding its finances. PHS is a multi-state health care system operating in five states. PHS has 27 acutecare facilities and 10 long-term facilities. PHS holds assets in excess of $9 billion and has $2.2 billion in outstanding debt. Cash flow last year was $877 million. Ms. Painter requested $125M in proceeds to finance a portion of the renovation and expansion of Women and Children's Services at the medical center in Anchorage. $56M will be used to completely rebuild Providence Extended Care Center in Anchorage. This is the second phase of their finance plan. Last week they closed an issue in Washington; a series of bonds for the refinancing of debt issued in 2001. This issue will be done concurrently with an issue done in Oregon. Recently, the three rating's agencies rated PHS at AA from Standard & Poor's, AA from Fitch, and Aa2 from Moody's Investment Services. These ratings included the two recent bonds.

Mr. Arvin asked what AIDEA's statue of authority regarding total bond issuance. Mr. Leonard said this is a conduit bond which will not affect AIDEA's debt capacity. It only affects the $400M in a rolling 12-month period. It is not being secured by AIDEA's assets. AIDEA will still have approximately $210M of bond capacity through the rest of the year for any new issues. There is a future project in Skagway for $65M but he is not aware of any other issues within the next 12 months.

Mr. Sheldon asked if this issuance will be utilized only in the State of Alaska. Ms. Painter confirmed that all the financing will be used for the two Anchorage facilities. Mr. Sheldon asked if any new debt will occur from the issuance in Oregon. Ms. Painter said no additional debt will be acquired. The Oregon issuance is purely refinancing. She explained why the issuance is for "up to $150M" but they are only asking for $125M. PHS recently issued some premium bonds which would cause the par value to decline and the ratio to improve.

Cynthia Weed, bond counsel from K&L Gates, said these bonds are expected to be marketed in mid-August and close at the end of August. All of the proceeds of this bond issue will be delivered to a trustee, US Bank Trust. These are separate from the proceeds of the Oregon issue. The bond trustee will disperse the proceeds upon requisition from the Sisters of Providence. All of the money from this issuance will be used in the state of Alaska. This resolution delegates authority to the Chair and the Executive Director to make the final approval of the terms of the bonds and to participate with Sisters of Providence in completing the bond issue. The bonds are using the credit of the Sisters of Providence, but AIDEA's role is very important because AIDEA is permitting them access to a tax-exempt market resulting in a lower interest rate on the debt.

Ken Vallrugo from Merrill Lynch provided a market perspective. He said over the last couple of months the market has improved dramatically and bond interest has increased. They offered $150M and received approximately $700M in orders. He expects this transaction to be very successful.

MOTION: Mr. Arvin moved to approve Resolution No. G11-14. Mr. Sheldon seconded. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Mr. Sheldon, Mr. Arvin, Commissioner Bell, and Deputy Commissioner Burnett voting yea.

7B. Resolution No. G01–14B Amended and Restated Resolution Related to Fixed-Income Investment Policies

Mr. Leonard said Resolution No. G01-14B deals with making amendments to the Authority's fixed-income investment policy. The Board assigned an investment committee to work with management to come up with amendments to the policy and this resolution would incorporate those recommended changes. Two Board members, Robert Sheldon and Jerry Burnett, were on this sub-committee and have been the champions of expanding the ability of the Authority to make certain investments that will help diversify and increase the rate of return on investments. The committee proposes two important changes.

One would allow AIDEA to include in its portfolio non-dollar denominated investments with limits on how much to keep in the externally managed investment portfolio of dollar denominated investments.

The second change would change the benchmark for the performance comparison from the Lehman Aggregate Bond Index to the Barclay Capital Aggregate Bond Index. This is a result of the Lehman Index no longer existing.

Ms. Walker noted that there is one change that they would like to make to the resolution in the Board packet. On page two, it is two lines above the item that starts with B. Where it currently says, "Contracts will also provide relating to cost" the committee would like to insert "guidelines" so it will say, "Contracts will also provide guidelines relating to cost."

Mr. Sheldon said he felt it was a well thought-out process. There are "collars" on causing any sort of risk exposure to the authority. There are restrictions and minimums of amount on hand in US dollars which the Authority does transact the vast majority of its business and this merely gives the opportunity, should staff and the Board see fit, to move forward and engage some other non-dollar denominated investment types. This gives the Authority some flexibility to where it may be able to hedge against higher contracts and construction costs, in the event that the dollar continues the decade-old decline. The Authority can fulfill some of its obligations on financing certain projects. This only applies to the external managers and not the Authority's internally managed portfolio.

Deputy Commissioner Burnett said he thinks it was a good process and believes this will do well for the corporation over time.

Mike O'Leary from Callan & Associates covered the specific changes. The proposed change would limit the amount of non-dollar investments in two ways. First, the non-dollar denominated investments is permitted provided that the greater of $200M or 60% of the external managed portfolio will be invested in dollar-denominated investments. At recent portfolio's sizes, the $200M is the limiting factor. Second is the addition that limits the types of and magnitude of non-dollar investments. No more than 20% of each external portfolio can be invested in non-dollar instruments. It doesn't require that it be invested, that is still the manager's choice.

The performance standard for each of those external portfolios would be measured against a blended index. It is comprised of the Barclay's Capital Aggregate Bond Index and the Citigroup World Government Bond Index Ex-US. Lehman went bankrupt and Barclay's Capital took over the index business from Lehman. It is essentially the same index, just renamed. The correct name now is the Barclay's Capital Aggregate Bond Index. The Board would still have control over the selection of managers. The description of the managers flexibility is that the non-dollar denominated securities would only be granted if the managers demonstrated a capability in that particular investment area.

MOTION: Mr. Sheldon moved to adopt Resolution No. G01-14B. Deputy Commissioner Burnett seconded. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Mr. Sheldon, Mr. Arvin, Deputy Commissioner Burnett, and Commissioner Bell voting yea.

7C. Resolution No. G11-15 Anchorage Sportsplex, Inc.

Mr. Leonard introduced Resolution No. G11-15. Anchorage Sportsplex, Inc. is going through reorganization and the Authority is required to approve financial terms of Debtor's Third Amended Plan of Reorganization dated May 13, 2011. This resolution approves the financial terms of the reorganization plan for the sports complex related to the Authority's Sports Facility Revenue Bonds and authorizes execution of Federal tax information form 8038-G.

Cynthia Weed, bond counsel from K&L Gates, addressed the Board. In 2006 the AIDEA Board authorized the issuance of conduit revenue bonds. Although the facility is up and running, it did not generate anticipated revenues. Anchorage Sportsplex, Inc. (ASI) filed a voluntary bankruptcy action in 2010. The action included Anchorage Sportsplex and all of its creditors. They worked together to develop a repayment plan for their financial obligations. This repayment plan was approved by the bankruptcy court. This plan supersedes terms of the bond issuance. ASI hopes to repay the full amount, but the payment terms have changed and the bond holders asked AIDEA to provide a bond counsel opinion related to the tax-exempt status of the outstanding bonds. AIDEA is not assuming additional financial obligations. The resolution is complying with certain terms of the Internal Revenue Code which says if a change in the terms of the bonds occurs, the issuer has to approve those terms.

MOTION: Mr. Sheldon moved to approve Resolution No. G11-15. Deputy Commissioner Burnett seconded. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Mr. Sheldon, Mr. Arvin, Deputy Commissioner Burnett, and Commissioner Bell voting yea.

7D. Resolution No. G11-16 Appointment of Officers

Mr. Leonard said during the work session they looked at how to reorganize the Authority. Four distinct divisions were created; Administration Division, Credit Finance Division, Project Development and Asset Management Division, and Investment Finance and Analysis Division. Two of the Directors have not been officially appointed as Assistant Secretaries and Deputy Directors. Resolution No. G16 appoints Mark Davis as the Deputy Director of the Investment Finance and Analysis Division and as an Assistant Secretary for the Authority, and appoints James Hemsath as the Deputy Director of the Project Development and Asset Management Division and as an Assistant Secretary for the Authority.

MOTION: Deputy Commissioner Burnett moved to approve Resolution No. G11-16. Mr. Sheldon seconded. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Mr. Sheldon, Mr. Arvin, Deputy Commissioner Burnett, and Commissioner Bell voting yea.

7E. DeLong Mountain Transportation System (DMTS) Presentation- Public Session

Mr. Leonard introduced the presentation saying this covers how the cash flow works through the contract. These contracts are very complicated and there are four to five different types of flows in and out of a reserve account with funds going back to AIDEA and Teck. This information will be needed for the next meeting in Kotzebue as the Teck payments to AIDEA will most likely be an issue in the work session.

Mr. Hemsath gave an overview of the DeLong Mountain Transportation System (DMTS) PowerPoint presentation. This presentation has been given to previous Board members as well as assembly members of the Northwest Arctic Borough (NWAB). The presentation outline included:

Red Dog and the DMTS: A Background

Mr. Hemsath spoke to the background of the DMTS. He referenced the stakeholder relationship diagram which shows Teck, who owns the Red Dog Mine, and the various stakeholders that are affected by the mine. The State of Alaska receives income tax and mine fees, Northwest Arctic Borough receives payment in-lieu of taxes (PILOT), NANA shareholders and non-shareholders in-state Teck employees receive wages from the mine, NANA receives royalty payments and they pay 70% of their royalties to other native corporations. AIDEA, as the owner of DMTS, receives toll payments and releases some of those fees back to Teck as excess fees as it relates to the reserve account. Other future users such as ZaZu Metals and Lik Deposit are also stakeholders in this relationship with Teck.

Mr. Hemsath said the Red Dog Mine is located in the Northwest Arctic Borough. Red Dog Port is on the coast north of Kotzebue. He reviewed the history of the mine.

AIDEA's Role in the Development of Red Dog Mine

- In the mid-80's, Teck (formerly Cominco) and NANA were negotiating development details for the Red Dog Mine.
- A link was needed to get the ore concentrates from the mine to the tidewater and from there to the ships.
- State Legislature created AIDEA's Development Finance Program and capitalized AIDEA's economic development account with cash and a loan portfolio totaling $131.5 million to enable AIDEA to finance, construct and own the road and port (DMTS).
- In the mid-90's, to increase system through-put, Teck approached AIDEA to expand the port in conjunction with a mine expansion.

DMTS – Operating since 1990 which includes:

- Multi-user gravel 52-mile haul road with bridges.
- Two concentrate storage buildings (largest in the world).
- Shallow water dock.
- Conveyor concentrate loading system.
- Offshore ship loader that loads barges which take the ore concentrate from the shallow water dock offshore where the cargo ships are anchored.
- Fuel distribution and 15 million gallon storage system for both the port and the mine.
- 96 bed personnel accommodation center.
- Port site lay-down yards, surge bins, electrical generation and other facilities

Economic Development

Two years ago DCCED did an analysis of the economic impact of the mine. There have been no major changes in this study since that time. There are over 500 people involved in the day-to-day operation of the mine in the winter season, and over 600 during the shipping season.

Employment:
- 505 Total – November 1 to May 15
- 617 Total – May 16 to October 31
- 58% NANA shareholder employment
- $223 million in salaries to shareholders

Economic Impact (2009):
- $1.3 billion economic benefits to region since 1990 when the mine came on line
- $1.2 million in support of regional programs in 2007
- $6.5 billion in net proceeds to NANA over the life of mine (2031)
- 70 vendors predominantly in the state

Mr. Hemsath said in terms of economic development, this picture tells a very nice story and highlights the kind of impact AIDEA can make in terms of economic development as it relates to resource development.

Major Deposits of the Red Dog District

Mr. Hemsath gave a summary of what is known to date about ore concentration. The Red Dog main pit, which ends operation next year, totals over $26 million tons of ore with a zinc concentration of 20.5%. Because of the extremely rich zinc deposit this mine has drawn much attention over the years.

Major Deposits of the Red Dog District	Ore (tons)(2)	Years of Operation	Mine type	Zinc (%)
Red Dog Main Pit	26,400,000	1990-2012	open pit	20.5
Aqqalauk	55,600,000	2010-2031	open pit	16.4
Qanaiyaq	4,800,000	2016-2025	open pit	23.4
Paalaaq	13,000,000	Not in Mine Plan	underground	15.0
Anarraaq	17,200,000	Not in Mine Plan	underground	15.8
Lik / SuLik	big	Not in Mine Plan	underground	9.16

Mr. Hemsath reviewed information on each of the mines and the minerals coming from each.

Mr. Sheldon asked if the Aqqalauk is producing mainly zinc. Mr. Hemsath replied it is producing primarily zinc/lead deposits with traces of silver. He suggested the Authority look at some of those trace elements in the future, specifically silver, since its price is rising. Mr. Sheldon said that members of the community have expressed similar hopes so he would be interested in learning more about that.

Mr. Hemsath reviewed the slide on concentrate that has been shipped and what they are projecting in 2011. The amount of volume of ore that was shipped in 2009 and 2010 continue to increase. Mr. Schimscheimer said the 2011 projected numbers are based on Teck's mine plan. Historically, the projections are low. He expects 2011 to be closer to the 2010 season and expects this trend to continue into the future.

AIDEA – Teck Agreement

Mr. Hemsath reviewed information on the original Teck agreement:

- Teck Alaska Incorporated has a non-exclusive priority right to use the DMTS for 50 years, nominally from 1990 to 2040. That is a priority right, not an exclusive right.
- DMTS constructed pursuant to "Agreement for the Financing, Construction, Use, Operation, and Maintenance of the DMTS Agreement" dated June 30, 1986 provided
    - $180 million for original project in-service date June 30, 1990, to bring the project on line beginning the construction of the DMTS.
- Expansion constructed pursuant to DMTS Amended and Restated Agreement for Financing, Construction, Use, Operation and Maintenance (including amendments, "Amended Agreement"), effective March 27, 1997 (as amended January 5, 1999 and July 18, 2003).
    - $85 million expansion project in-service date January 1, 1999.
- Amendment 2 (July 2003)
    - Resolves disagreements that occurred in the third phase of expansion of Red Dog Property and had to do with how payments were being made.
    - Resolution resulted in rescheduled releases of "Excess Funds" from the Reserve Account to assure that there was some capital available to insure that all of Teck's obligations would be met throughout the life of the project.
    - In addition it enabled NWAB to enter an agreement with Teck to fund school expansions and construction projects.
- Payments deferred or abated upon occurrence of certain force majeure events.

AIDEA – Teck Agreement – Original and Amended and Restated

Mr. Hemsath reviewed information on the Amended and Restated Teck agreement:

- It provides for repayment of the Authority's investment in the DMTS over the initial 50-year term (1990-2040), a very good example of patient capital.
- It provides for payment on an accelerated basis if throughput exceeds 850,000 tons per year which was the original anticipation of the first mines prior to expansion.
- It provides payments to AIDEA if the zinc price rises above a certain threshold (as required in authorizing legislation).
- The original project was contemplated with this annual throughput up to 850,000 tons per year.
- The expansion project increased throughput capacity to an estimated 1,200,000 tons per year.
- The Amended Agreement did not add new revenue sources to AIDEA but added some revenue sources to Teck, based on the release of the reserve funds that were funded by some of these excess capacity things.

Mr. Sheldon remarked on the third bullet, "Provides payments to AIDEA if zinc prices rise above certain thresholds." He said it is just a faster pre-payment of the amount, not an additional amount which is a benefit because AIDEA will have dollars back to do other things. Mr. Hemsath thanked Mr. Sheldon for clarifying that and said it is not a revenue source. These escalators specifically go to pay down Teck's obligation earlier.

Ms. Walker said there is an upside for getting the contingent escalator for zinc price increases (CEZ). The way the agreement works and with the fact pattern, AIDEA can get paid off but continue getting payments as long as there is throughput. Mr. Sheldon said asked if that goes all the way through 2041. Ms. Walker said therein lies the problem. If it depleted before 2040, it is a 100-year transaction if they do the options. But the upside is the CEZ and the other payment goes to getting AIDEA's investment back sooner. Once it is paid back at the investment rate in the agreement it would be straight revenue.

<u>Tolls and Fees</u>

Mr. Hemsath said AIDEA gets paid through tolls and fees.

Teck pays for use of the DMTS:

- Original and Amended Agreement:
  - Minimum Annual Assessment ("MAA") on throughput.
  - Contingent Escalator or additional fee for Zinc Price Increases ("CEZ").
  - Contingent Tonnage Fee for Shipments Exceeding Allowable Base ("CTF").
- Amended Agreement added a:
  - Supplemental MAA.
  - Reserve Account set at $23,000,000.
  - Tonnage Sensitive MAA and CTF deposited into Reserve Account.
  - Releases to Teck and AIDEA under a specified schedule.

Mr. Hemsath said Teck is obligated to maintain the road and take care of the facility. If at any time during the life of the project they fail to do that, AIDEA has the ability to tap the reserve account to make those maintenance corrections as necessary. In addition, at the end of the life Teck is also obligated to dismantle everything, including the road. That reserve account provides a cushion to allow the Authority that end-of-life remediation.

It is apparent that a lot of detail is in this agreement. It contains a lot of aspects of negotiation and how fees were done in different ways that allow AIDEA to get repaid in different ways that all result in encouraging mine development to take place while protecting the Authority's needs and rights.

<u>Minimum Annual Assessment (MAA)</u>

Mr. Hemsath said the MAA was created to:

- Repay AIDEA's original $180 million DMTS investment over a 50 year period (1991-2040) at a nominal rate of 6.5% (6.348% adjusted to reflect quarterly payments).
- Minimum payment is the higher of 1) amount needed to achieve AIDEA repayment at 6.5% or 2) $14.062 per ton shipped.
- That number in tonnage is $11,952,912 – MAA prior to expansion (port and mine) that allowed increase in tonnage shipped beyond 850,000 tons per year.

- Since the expansion, the MAA has ranged from $13,739,000 (1998) to $20,535,000 (2007) (ignores cash receipt timing differences).
- No change in MAA computation between Original Agreement and Amended Agreement.
- Amended Agreement defined “Tonnage Sensitive MAA” as MAA in excess of $11,952,912 and provides for it to be deposited in the Reserve Account.
- $80,591.000 Tonnage Sensitive MAA payments have been deposited into the Reserve Account through December 31, 2010.

Contingent Escalator for Zinc Price Increases (CEZ)

- Payment owed under a complicated formula when the five-year moving average price of zinc rises above inflation adjusted $0.50 per pound calculated every year on what they have done.
- Payment included as repayment of AIDEA’s DMTS investment.
- Payment of $4,610,600 was received in 2009 and $6,496,000 was received in 2010 on the zinc escalator.
- Payment is directly to AIDEA, without deposit into Reserve Account, but is used to shorten the term so it does not necessarily show up as revenue.
- Current projections suggest AIDEA will receive CEZ payments through 2015.

Mr. Bjorkquist said the payment to AIDEA pays off the contract amount, which reduces the minimum amount that has to be paid. It does not reduce or shorten the contract. The tonnage payments would continue. Any time that the payment is accelerated the minimum payment amount is reduced under the contract because it gets recalculated every year to amortize for the balance of the term of the contract.

Mr. Leonard said the projected payment amounts will go down due to the inflationary portion of the formula.

Contingent Tonnage Fee for Shipments Exceeding Allowable Base (CTF)

- Payment is owed under a formula that arises when Teck ships more than 935,000 tons in any year.
- The CTF has ranged from a low of $464,000 (2002) to a high of $12,691,000 (2007).
- To date, $68,815,000 CTF payments have been deposited into Reserve Account through December 31, 2010.

Mr. Sheldon asked what method of calculating inflation they are utilizing. Mr. Bjorkquist said that it is the deflator factor that the US government used.

Supplemental Minimum Annual Assessment (Supplemental MAA)

- Repays AIDEA’s $85 million DMTS expansion investment over remaining agreement term at 6.33% (1999-2040).
- $5,716,376 fixed annual payments.
- These payments are scheduled 10 years past the projected life of the mine (2030, with Aqqaluk development).

He feels the Aqqalak development is a lot bigger than anticipated and will probably continue to ship past 2030.

Mr. Bjorkquist said this is where the minimal annual payment gets amortized on the original contract. If there is still some amount owed at 2030 and there is no production because all of the mines have been depleted, whatever amount is owed will be amortized out over ten years and that is what the minimum payment from Teck will be then be.

<u>Reserve Account</u>

Mr. Hemsath said the reserve account was set up to access some of the escalators but in a way that was favorable to Teck.

- It was established to provide an available source of funds for AIDEA to fulfill its obligations to Teck under the Amended Agreement.
- Withdrawals can be used:
    - To pay costs incurred by AIDEA relating to the ownership or operation of the DMTS that Teck is to pay but has not paid: includes payment of any unpaid MAA or Supplemental MAA.
    - To pay any unpaid Teck incurred obligation pursuant to the Amended Agreement.
    - To finance future capital improvements to the DMTS, with Teck's prior consent.

Mr. Hemsath said for example, if we thought there would be value in expanding the shipload or adding another conveyor and Teck agreed to that, we could withdraw from the reserve account to make that capital payment.

- Once the reserve account is up to $23 million there is a Release of Excess Funds.

Mr. Hemsath said "excess funds" does not mean there are excess funds. It is those funds in excess of $23 million.

- Teck received 100% of released funds through June 30, 2009 ($114,315,000) which were in excess, over that time period, of the $23 million reserve account.
- From 2009-2010, AIDEA received 12.5% of the excess for one year period beginning June 30, 2009.
- AIDEA will receive 25% for the four-year period beginning June 30, 2010 of those funds that are excess.
- Beginning June 30, 2014, that release percentage to AIDEA increases 5% every five years until it reaches 50% on and after June 30, 2034.
- Occurs twice a year.

- Reserve releases to AIDEA included as repayment of AIDEA's original DMTS investment. This is a reduction of the amount they owe AIDEA.

AIDEA Financial Information

	Initial Investment	6/30/2011 Balance
Original Project	$180,188,000	$128,526,000
Expansion Project	$ 84,846,000	$ 75,679,00
Total	$265,034,000	$204,205,000

Note: Net investment as of 6/30/2011 is computed per mechanism established in DMTS Agreement; amounts differ from netbook value per financial statement.

- AIDEA financed the original DMTS and expansion using a combination of cash and bond proceeds.
- $81,020,000 of bonds are currently outstanding (June 30, 2011)
- Teck payment is unrelated to ADIEA debt.

Mr. Hemsath reviewed two pages of payments and projected payments to 2040.

Teck – NANA Development Agreement

Mr. Hemsath said this is AIDEA's understanding of the Teck – NANA Agreement.

1982 – Teck – NANA created the Development and Operating Agreement.

- NANA (technically the mine owner) is entitled to a payment from Teck "Net Proceeds" as a royalty.
- Payments started when Teck recovered its capital investment.
- There were some pre-recovery payments made to NANA from 1982 to 2007.

2007 – Net Proceeds Royalty payments commenced.

- 25% of profits, escalating at 5% every 5 years to 50%.
- $6.5 billion estimated net NANA proceeds over the projected life of the mine (2031)
- Per 7i & 7j (ANCSA) 70% of these payments are distributed to the other ANSCA Native corporations.

Teck – NWAB Contract History

Mr. Hemsath reviewed Teck's payment in Lieu of Taxes (PILOT) to the Northwest Arctic Borough.

- 1987 – Contract for Services ("PILOT" Agreement").
- September 15, 1996 – First Amended, Restated Contract for Services.
- September 29, 2000 – Second Amended, Restated Contract for Services.
- October 1, 2003 – Debt Service Agreement ("partially amends").
- Provided for, among other items, a $528,000 annual payment for 21 years to the NWAB for school construction debt related service.
- NWAB currently negotiating a revised PILOT agreement.

Mr. Bjorkquist said there is an ordinance with the Northwest Arctic Borough that incorporated this PILOT agreement and provided that NWAB would not increase the taxes or impose a tax until 2012. We are right in that area, so under the original agreement Teck knows that taxes are on the table and being negotiated. Also the NWAB had legislation give them tax exempt status for most of the DMTS and that also expires shortly. That does not really affect their taxes

9. BOARD COMMENTS

Commissioner Bell thanked everyone for the effort that goes into coordinating their travel schedules and the planning of the Kotzebue trip. She feels that it is going to be very educational for the Board to be there, to hear the discussions and see the site that the Board and the Authority are so proud of. She said she had the opportunity to visit the Healy Clean Coal plant and met with Joe Usibelli. They spent time with him looking at maps and touring the mine site. She felt it was a very valuable trip.

Mr. Arvin said he appreciated staff's thorough information they send the Board. He feels it helps the production of the meetings and reduces the questions that are asked by the Board. He acknowledged the good work the staff is doing.

Commissioner Bell said on Monday, July 25, 2011, from 9:15 to 9:30 a.m. there will be a ceremonial bill signing for SB42 at the Governor's office. There will be legislators, community leaders, and business community leaders. This is a significant piece of legislation for the administration. Board Chair Short will be making some comments along with the Governor and a couple of key legislators. She encouraged people to attend this celebration.

Commissioner Bell said the Arctic Economic Summit is scheduled in Kotzebue August 3-5, 2011 with a reception on August 2. It will be a combination of NWAB and the North Slope Borough. This will be an opportunity for AIDEA to reach a different audience. In the past, the Board has talked about AIDEA communicating with community leaders, business leaders, legislators and others and compliments AIDEA staff for making sure they will have a presence at this meeting.

10. ADJOURNMENT

There being no further business of the Board, the meeting was adjourned at 4:12 p.m.

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

9. BOARD COMMENTS

Commissioner Bell thanked everyone for the effort that goes into coordinating their travel schedules and the planning of the Kotzebue trip. She feels that it is going to be very educational for the Board to be there, to hear the discussions and see the site that the Board and the Authority are so proud of. She said she had the opportunity to visit the Healy Clean Coal plant and met with Joe Usibelli. They spent time with him looking at maps and touring the mine site. She felt it was a very valuable trip.

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