



Alaska Industrial Development and Export Authority
BOARD WORK SESSION
Monday, August 22, 2011
Kotzebue and Anchorage, AK

1. CALL TO ORDER

Chair Hugh Short called the work session meeting of the Alaska Industrial Development and Export Authority to order on August 22, 2011 at 1:12 p.m. A quorum was established.

2. ROLL CALL: BOARD

Members present in Kotzebue: Chair Hugh Short (Public Member); Susan Bell (Commissioner, Department of Commerce, Community, and Economic Development); Bryan Butcher (Commissioner, Department of Revenue); Robert Sheldon (Public Member); and Gary Wilken (Public Member).

3. AGENDA APPROVAL

The agenda was approved as presented.

4. ROLL CALL: STAFF, PUBLIC

Staff present in Kotzebue: Ted Leonard (Executive Director); Mark Davis (Deputy Director-Investment Finance and Analysis); Valorie Walker (Deputy Director-Finance); Jim Hemsath (Deputy Director-Project Development and Asset Management); Mark Schimscheimer (Project Manager); Sherrie Siverson (Executive Assistant); and Teri Webster (Administrative Assistant).

Others present in Kotzebue: Eugene Smith (Mayor-City of Kotzebue); Derek Martin (City Manager-City of Kotzebue); Grant Hildreth (City of Kotzebue); Walter G. Sampson (President-Northwest Arctic Borough Assembly (NWAB)); Hendy Ballot (Vice President-NWBA Assembly); Brandon Chapman (NWAB Planning Department); John Chase (NWAB Planning Department); Miles Cleveland, Sr. (NWAB Assembly); Nathan Headley, Jr. (NWAB Assembly); Ingemar Mathiasson (NWAB Energy Coordinator); Matt Mead (NWAB); Christy Mulluk (NWAB Deputy Borough Clerk); Ukallaysaaq Okleasik (NWAB Planning Department); Lincoln Saito (NWAB Economic Development Director); Patrick Savok (NWAB Assembly); Austin Swan, Sr. (NWAB Assembly); Dean W. Westlake (NWAB Assembly); Martha Whiting (Mayor NWAB); Wayne Hall (Teck-Red Dog); and Cole W. Schaeffer (Kikiktagruk Inuiat Corp).

Staff present in Anchorage: Shauna Howell (AEA Executive Assistant); Sandy Burrows (Administrative Assistant); and Karin St. Clair (Administrative Assistant).

Others present in Anchorage: Brian Bjorkquist (Department of Law).

Chair Short invited Mr. Sampson to be co-chair during this work session.

NEW BUSINESS

5A. AIDEA Overview presentation

Mr. Leonard provided an overview on AIDEA's programs and mission.

AIDEA's Mission is to promote, develop, and advance economic growth and diversification in Alaska by providing various means of financing and investment. AIDEA fulfills that mission by providing Alaska businesses and project developers with long-term commercial and development financing at a reasonable cost. He emphasized it does not say the lowest cost but reasonable costs.

AIDEA assists in financing large and small Alaska projects, urban and rural projects, all major industry sectors including retail, tourism, natural resource extraction and processing and air cargo and services.

AIDEA does not compete with the private sector but partners with the private sector. AIDEA does not provide grants; grants are done through the Department of Commerce (DOC). AIDEA does not exclusively finance large projects; projects range from as low as \$20M to \$200M.

AIDEA has six programs: Loan Participation, Development Finance, Conduit Revenue Bond, Business and Export Assistance, Rural Development Initiative Fund, and Small Business Economic Development Loan Fund. The last two are run by the DOC.

The Loan Participation program is AIDEA's main loan program. The objective is to provide long-term financing to Alaska businesses.

The Development Finance program objective is to finance Alaska economic development projects. AIDEA owns a project and is repaid through user fees, lease payments and other revenue sources.

The Conduit Revenue Bond program allows non-profits and certain other projects the ability to obtain tax-exempt financing. AIDEA acts as a conduit for the issuance of the bonds. Neither the assets nor credit of AIDEA or the State of Alaska are at risk.

The Business and Export Assistance program is designed for eligible institutions with a guarantee up to a certain amount on export loans.

The Small Business Economic Development loan program provides private sector employment by financing the start-up and expansion of small businesses that create significant long-term employment.

Mr. Westlake asked if communities have to be at distress levels to receive a loan from the Small Business Economic Development program. He said most programs are for lower to moderate income with different standards which throws people off. Mr. Leonard said there is a definition through the Federal Department of Economics. He believes it is for all areas except Mat-Su and Anchorage.

Commissioner Bell mentioned that both the Small Business Economic Development Loan Fund and the Rural Development Initiative Fund programs are under-utilized.

Mr. Leonard reviewed the 2011 legislative changes related to AIDEA. He said HB 119 provides AIDEA with more flexibility to encourage greater investment and Alaska resource development. This encourages private public partnerships and allows AIDEA to increase investment in Alaska's industries and communities which further leverage the State's efforts in economic development and promotes job creation. Summary of some of the changes to the bill are as follows:

- Allows AIDEA to own all or a percentage of a corporation or be a member of an LLC.
- Allows AIDEA to create a subsidiary corporation for the purpose of financing projects.
- Expands the definition of project types that AIDEA can finance.
- Allows AIDEA to adopt new procurement regulations.
- Authorizes AIDEA to issue up to \$65M in bonds to expand, modify and upgrade the Skagway Ore terminal.

Mr. Leonard detailed how HB 119 expands AIDEA's definition of projects. AIDEA can now be involved in other sectors. These include plants or facilities that enhance or promote economic development with respect to transportation, communications, community public purposes, technical innovations and prototype commercial applications of intellectual property or research. Also included are roads, specifically industrial roads. Mr. Leonard said AIDEA is in the process of writing procurement regulations and expects to be done by December. In the near future, they will be asking for public input.

Mr. Westlake said he would like to give his input right now. He said Operation Red Flag is the biggest military exercise in Alaska. Yet, if they need an airlift they have to get a letter of non-objection. He asked if they could get equipment cheaper and utilize it from the federal side. Should there not be a mechanism in place where this can be done more easily without a letter of non-objection? Mr. Leonard said anything AIDEA does must deal with a project AIDEA is working on. Mr. Westlake said he wanted to leave it open-ended so when the procurement regulations are being formed they will think about the constant changes that occur in that region and maybe they will be able to use the Coast Guard more often. He said Kotzebue is getting more ship and military traffic and hopes the new regulations will include something that can be utilized to lower the costs in their region.

Mr. Sampson said they are looking at the Ambler Mining district as the future Red Dog Mine. During Mr. Leonard's presentation about the Development Finance Program, he mentioned the project should have community or regional support. Mr. Sampson said, based on that, is there any way AIDEA and NWAB can look at the agreement NWAB has with Teck again? He stated there was never input from either this governing body or the regional corporation. Mr. Short said he received a letter of proposal on Aug 18, 2011 from NWAB regarding the DeLong Mountain Transportation System. Mr. Short will ask Mr. Leonard, staff and management to prepare an analysis for the AIDEA Board and take this item up at the November meeting. He said the Board intends to be responsive with a prompt and respective reply to NWAB. Mr. Leonard added it would not be re-opening the contract with Teck because of current contracts and the legislative process, but would be working directly with NWAB. AIDEA has to be very careful of how monies go across the balance sheet due to bond covenants and rating issues. Mr. Sampson said he would like to partner with AIDEA in the future because he knows the future is in this region with

resources being extracted. The Borough has only one tax base and are looking at other potential resources.

5B. General Discussion and Public Comments

Mr. Short opened the work session asking the community leaders to voice their questions and concerns. He asked to hear how AIDEA can help attain their mission of creating jobs and development opportunities in this region.

Mr. Sampson thanked the Board for coming to Kotzebue to establish a relationship that is needed. He feels it is a historical point to start the process because the future of this region is its resources. He will be looking at partnering with institutions that have funding sources for projects in this region because this is their only tax base and they need an additional tax base for the future of the region. The dollar amount from both the federal and state sides has been dwindling and communities are barely providing public services needed. Many communities are struggling to find revenue sources in order to continue providing water and sewer, police programs and other services. As the governing body in this region, they are asking what can be done to provide essential services. He said the State of Alaska has that responsibility as well.

Mr. Sampson said a Northwest Arctic Borough Economic Summit was held to address the needs from both the NWAB and North Slope regions. They often do not get the response they would like from the government to partner with them on projects. He said it became clear at the Summit what occurred. The State of Alaska failed to respond to a tool that both regions were working with. The Coastal Zone plan was wiped out by the State of Alaska. That sent a clear message to them the attitude that someone has and he is sorry that they must find other ways to deal with these issues.

Mr. Sampson added that when looking at the State of Alaska, a majority of resources come from both regions where the cost of living is much higher. The price for fuel was up to \$15 a gallon two years ago in Noatak, yet resources are being taken out of bush Alaska. He said there has to be equity in how rural communities are being treated. They want to discuss these issues with state heads and others of authority.

Mayor Whiting thanked the Board for coming to Kotzebue. She said the NWAB wants to continue their relationship with AIDEA and the Red Dog Mine which has promoted many good things for the people of this region. It is a mine that brings people together. It is funding that helped the State of Alaska and AIDEA pursue further economic development opportunities for the state and is also the bread-and-butter for the NWAB. She thanked Mr. Leonard and Mr. Sheldon for attending and AIDEA for co-sponsoring the NWAB Economic Summit. The sponsorship was well appreciated.

Mayor Whiting said the NWAB are hosts to the world's richest lead and zinc mine. Most of the resources to fuel the economy of Alaska's larger cities come from their region. Yet, their villages have the highest cost-of-living. As hosts to the municipality of Red Dog Mine, increased revenue sharing to their borough is critical to the health and well-being of their people. There will be more "Red Dogs" in the future and asked how to help the communities be self-sustaining to ensure they have more opportunities for their villages to benefit from mining. Noatak is next to Red Dog and the cost of fuel is \$11-12 a gallon. She said they need to look at ways to build that road from the port site to Noatak so the cost of fuel will be decreased in the future.

Mayor Whiting said over the last several years she worked with the Governor and AIDEA to increase contributions to NWAB from Red Dog royalties. When the Borough was formed, they needed a tax base to operate services for their villages. They made an offer to purchase the port site from AIDEA, but their offer was rejected. The Borough did an evaluation study in 2007 to get concrete numbers on the value of the Red Dog Mine to make a fair offer.

The most recent proposal was to detour excess revenue AIDEA receives from Red Dog to the NWAB, approximately \$3M annually. She said the State of Alaska gets a 6.2% earning, where AIDEA is only required to pay 5%. There is a \$1.2M excess that goes to the state and she wants the excess to go to the NWAB. She knows AIDEA has bond ratings to deal with but the difference is approximately \$3M and it would mean a lot to the NWAB to have that additional \$3M go toward the services they provide. They will update that proposal and would like to work diligently with AIDEA to get the funds to the NWAB.

The mission of the NWAB is to improve the quality of life for their residents. They want to make sure each community has public safety facilities and meetings, fire training and fire equipment training in all villages. The \$3M would allow them to purchase additional search and rescue facilities and provide more fire training and equipment.

They recently negotiated another payment in-lieu of taxes (PILT) agreement with Teck. Last year the NWAB received approximately \$7M from Teck through their PILT. She said \$4M went to the school district, \$2M went to bond debt payment and the remainder (along with grants) provided the variety of services they offer for transportation, planning, etc. They want to make sure the funding sustains them so are also working on a sustainability fund which would be voted on.

In 2007 the assembly agreed to build a sustainability fund. Presently, the majority of their funding comes from Teck at Red Dog. If the mine should shut down they have enough money for one year to operate the Borough services and that is not acceptable. She said they hired the services of Jim Sharp, a former member of the North Slope Borough, to work on the sustainability fund which is similar to what the North Slope has. They do not want to be self-reliant on one tax revenue source to the NWAB and is an issue that will be brought up to the voters soon.

Mayor Whiting said they also are looking at bringing down the cost of living by promoting alternative energy projects like wind and solar. Ingemar Mathiasson is working on the street lights to be replaced with lead lights. They have a project in the Borough that is cutting down the cost of electricity to supplement the fuel cost with a simple solar panel. They want to focus on green energy.

They have a saying, "With our Land, Our Strength." She said how they take care of their land is very important. They have always tried to sustain the waters, the land, and the plants so that they will continue to give them the many riches they have to offer. She said it is the same thing with the Red Dog Mine and the economy; if it is cared for, it will always give back. They have to work together and appreciate the riches the land has given them, and said they have a very strong spiritual connection with their land. It is something they have to foster and share with other people who do not have the same spiritual connection to the land. As they move forward with the Upper Kobuk Mining District, they have a spiritual connection not only with the

nourishment, but with the land also. They need to take care of it so it will continue to give back resources and food.

Mayor Whiting said the NWAB wants to continue the partnership and all the opportunities that they have as they prepare for the next Red Dog. It is important to work together to make sure the communities benefit. If they do not benefit, they will not support a lot of resource development. The communities, municipalities and cities have to benefit. People are moving out of their region because of the high cost of living, yet the majority of their resources go to fuel Alaska's entire community. They need to make sure their people benefit first and foremost and would like to work on a timeline in order to have something concrete by the end of the calendar year. Mayor Whiting emphasized that if they do no benefit from the resource, it is just raping and pillaging their land that others benefit from.

Mr. Sampson said in 1986 the NWAB was created and based on two things; 1) to support education, and; 2) to create an opportunity for the residents of the region. The Borough met part of those obligations with what little revenues that they have been able to get from Red Dog, which is their only tax base. They were authorized in the early 90s by the residents of this region to bond up to \$100M for infrastructure to build new schools. Out of the 11 villages, they have constructed 8 new schools with the little revenue they had. Three more schools need to be built. Teachers should not have to worry about the ceilings falling apart or the roof leaking. This is why the NWAB is working so hard to establish a base for them; for their children and grandchildren's future.

Mr. Sampson said this is an encouraging time to look at what AIDEA is doing by encouraging the regions to stimulate their economic base with Red Dog, the Ambler District and others. The PILT agreement with Red Dog is their only problem. They would like to discuss the dollars from the port facility and the \$23M overflow from the emergency road fund. The interest from that goes to Teck and AIDEA in the amount of \$1.5M each. He said if you compare the \$3M from the overflow vs. what the State of Alaska gets from the \$25M from the port site, it is not much. They want to make this work to continue to help their communities thrive. Some of the services in the communities are operating on a volunteer basis because there are very few dollars going to the communities. The frustration is with the resources that are being taken out of this region while residents pay for those things with a high cost of living. He said it is caribou hunting season and if the herd decides to go further east, out of migration patterns, it takes more fuel and food to go further. People at the community level are forced to make hard choices. They have to decide whether to eat or heat their houses with the little revenue they receive. He gave an example of a family trying to put food on the table so their children can go to school the next day and said it is hard choice.

Mr. Westlake said the state's position is, "if we can float a feather on it, it is navigable." For 23 years they have never been able to have a barge land at Noatak, hence the \$15.99 price for fuel. Something as simple as scooping the gravel to make a channel is needed and having transportation may be something AIDEA can take up.

In Kiana a sandbar is growing in front of the town. In Shungnak it is not possible to land or get to the marine head waters because the area is filling up with solids rather than water. These things need to be addressed and it comes down to getting a barge in there. He suggested utilizing AIDEA to take these renewable resources and stockpile the gravel all over the region.

The Ambler Mining District will need a port access road once the mine closes. He said maybe AIDEA, the state, Teck, NANA, the Borough can form a committee on the A routing. This needs to be worked on now because as the climate continues to change there will be more issues. If they can show the environmentalists they are responsible about this, perhaps AIDEA can help.

Mr. Smith gave an update on the deep-water port. A tri-road has been endorsed by the Borough to connect Kiana, Selawick and Noorvick to take advantage of a deep-water port and asked why it does not go all the way to the Ambler district. He feels AIDEA is more concerned with the economic development of the mine, but you have to realize that by providing a deep-water port the North Marine passage will be a very essential process to have in place. NOAA has done bathymetry studies and the Coast Guard comes up often. The Kotzebue Sound is classified as a safe harbor. Building the port provides opportunity for economic development in many ways and there is the potential for anchor tenants. They have received letters of support from Shell and Cominco and expect to receive a third soon. These letters support building a port as a staging area for Outer Continental Shelf (OCS) exploration.

Mr. Martin spoke about a 2009 state-commissioned Alaska geographical differential study prepared by the McDowell group. Kotzebue and a few other communities were listed as having a 61% higher cost-of-living than Anchorage. Part of the reason is the lack of a deep-water port. There has been a lot of traction lately on a deep-water port and Cape Blossom when Kotzebue, NANA, the Borough, and a local corporation KIC partnered. DOT&PF has two earmarks for the road to Cape Blossom and they just received the authority to proceed with an environmental report. The city is working on an application to the Department of Defense through the Innovative Readiness Training (IRT) program for eligibility to build a bridge across the city creek. It is nine miles between Kotzebue and Cape Blossom and they are looking for assistance from the IRT to build a bridge. The hydrographic survey is presently being done on Kotzebue Sound and Cape Blossom. DOT&PF is doing a bathymetry study at Cape Blossom. Last month the Northern Waters taskforce met in Kotzebue and Nome. They are trying to lower the high cost of living through these partnerships.

Mr. Smith would like to find a way for AIDEA to participate in the deep-water port project and welcomed suggestions and questions.

Mr. Savok said everything discussed today are needs not wants. The letter they plan to present to AIDEA requests some of the traditional funds AIDEA receives from proceeds from their area, which is not a want but a need. He asked AIDEA representatives take that element to heart as they make decisions on funding and expansion. At the Arctic Economic Development Summit they identified their number one need as transportation. Deep-water ports, tourism, the Ambler mining district, and the road are all imperative to their success of life. The turnover of people and the high cost of living play into the term of what is called "life." They try to thrive the best they can.

Mr. Headley said, as of August 12, at the village of Buckland, the road job funded by ARRA grants was shut down and the money was transferred to DOT&PF. Another village project will shut down on September 15. The villagers can work till October or November but the money isn't there anymore.

Mr. Sheldon asked if there was an estimate of how the cost of fuel will be impacted by Cape Blossom. Mr. Martin said the earlier studies go back to 1973 when the Corps of Engineers said one-quarter of the costs would be reduced.

Mr. Sheldon asked how the three villages (Kiana, Selawick and Noorvick) presently get their fuel. Mr. Martin said the fuel is delivered to Kotzebue, then loaded and shipped to the village. The problem is the barge must wait until the sound is ice-free in order to ship upriver and by the time this happens, the river level has dropped too low to get to those villages. This is why many villages have to fly their fuel in. Many areas are heavily impacted by the water, including Noatak and the upper Kobuk district. If they could get fuel to the villages earlier, when there is a high runoff, the cost of fuel would go down.

Mr. Sampson said if the port is constructed with infrastructure, the intent would be for a short road from the port facility to Nimiuk Point which is across the main channel of the river. That area is ice-free by late May/ early June and if there was a pipeline at Nimiuk Point, the barges could take the fuel up river while the water is high.

During a meeting with AEA in February, Mr. Sheldon said there were conversations regarding a special program to provide emergency fuel lifts. He asked what the cost was for emergency fuel lifts over the last couple of years.

Commissioner Bell said she did not have an answer but knows discussion can help. She will ask the Division of Community and Regional Affairs staff in Kotzebue, as well AEA staff who handles bulk fuel. She said the Department of Commerce, Community, and Economic Development (DCCED) can do bridge loans if someone is denied. DCCED began work on a fuel program a week ago and made calls in order to identify which areas having issues. She said it may be an issue of accounting, financial or administrative, but they want fuel in place so they don't have to fly fuel in. Changing silt and water patterns make it impossible to get a barge in. Even with loans or technical assistance, there are some areas where the only option is to fly fuel in. She thinks, as a group, they should come back and discuss this specifically.

Mr. Savok commented on the reduction of fuel prices with a road between the three villages. He said the studies show fuel prices would be reduced by one-fourth. Keep in mind there is a monopoly with Crowley, so whatever Crowley sets the price at, they have to pay. With a deep-water port they hope to attract more fuel companies, open tank farms and build a road to transport it.

Mr. Sheldon asked about the letter of intent for the deep-water port. He asked if any conversations have taken place with the Coast Guard, would they consider Cape Blossom and whether the depth would be an issue for them. Mr. Smith said they have been talking with the Coast Guard and are looking for the actual depth numbers which he thinks is 35 feet. He said they looked at the bathymetry study, as well as what the state is looking at, to build the port. He does not believe to date there is a port in the northern region of Alaska that has those depths.

Mr. Sheldon asked Mr. Leonard if there is a financing program available to help with port development assuming there were commitments from several companies to partner in the project as well as a long-term partner like the Coast Guard. Mr. Leonard replied yes. He said this applies with the resolution passed today in looking for partners to build ports. Staff would

compare various development projects and look for long-term partners in the development project to show financing the projects would be paid by those tenants.

Mr. Sheldon said that regarding DMTS and issues therein that there are so many moving parts that any solutions will take additional concentrated thought before responding to the Mayor's request for a solution. He said AIDEA can do so many things as the Authority, such as the port discussion that was just covered, but the issue is staff time, focus and determining if the scoring process allows AIDEA's participation.

Break from 2:53 p.m. – 3:10 p.m.

Mr. Sampson said both AIDEA and Kotzebue need to follow through on discussions which took place today and discuss the next step. He invited the AIDEA Board and staff to attend their assembly meetings which occur monthly.

5. BOARD COMMENTS

Commissioner Butcher asked Mr. Leonard keep the Board in the loop on the progress of these items. He does not want this to fail due to lack of communication and if there are items that require getting the Board involved please let them know.

Mr. Short said AIDEA and NWAB have many issues in common and are partners in many ways. He said it was an honor to be here.

The AIDEA Board expressed their thanks to the Assembly and the NWAB.

Mr. Wilken said in November of 2012 the exemption on DMTS will expire. He hopes the Borough takes a pro-active stance to get this problem taken care of.

Mr. Sheldon said he has a lot of interest on the sustainability fund and would like a copy of the study once it is complete. He has been involved in reviewing similar funds in other countries and would like to see how the Borough will come up with structure and mechanisms for funding.

Mayor Whiting said they would like to put up \$5M to start the sustainability fund and were hoping to use the newly negotiated PILT fund but that did not happen. They have a budget reserve but that has to go before the voters this fall because it includes an amendment to the charter. They would like to put money in and live off interest earnings. With funds from AIDEA and PILT, in addition to the long-term sustainability for public safety, they are also looking at activating a sustainable fund.

Mr. Sheldon asked if much thought was given to a funding mechanism through a tax base. Mayor Whiting said they looked at severance tax with the mining operation. They also looked at a variety of other taxation in the region, such as soda and tobacco, but this is a smaller amount so they continue to look at other ways to form a tax base and get that started.

Mr. Sheldon suggested making the study available to the public so investors, developers, and resource owners can figure out a timeline on when to invest.

Mr. Schaeffer said their priority is a deep-water port. One component of the port is the gravel source. They have been working with their partner, NANA. Six miles from Kotzebue is a place called Iggy Hill and DOT&PF discovered over one million cubic yards of gravel. Kotzebue does not have many gravel sources and import their gravel by barge, costing approximately \$42 a cubic yard. The port road from Kotzebue to Cape Blossom would use a minimum of 250,000 yards so this is the gravel source they are looking at. KIC has a land corridor that reaches down there so they only have to deal with one land owner. KIC has a partnership with the Native Village of Kotzebue and the City of Kotzebue and meet every quarter to discuss development. KIC would also like to put in a 2.5M to 3M gallon fuel farm. The best place to dock is on their land so they are pursuing that option. They would like to partner with AIDEA to build a road to the gravel source and would like to have it open and accessible within the next two years. He said they would like to start the initial excavation this winter with an ice road, depending on whether or not funding is approved. They will need to work with AIDEA, DOT&PF, the Corp of Engineers and probably the Federal Highway Administration at some point.

Mr. Wilken asked if someone could provide a map of the Cape Blossom area and a map was provided.

Mr. Saito invited the Board and AIDEA staff to visit the local art center, Sulianich. The art center is sponsored by the Borough and is one block away. They buy art from local artists and only mark it up 10%.

6. ADJOURNMENT

There being no further business of the Board, the meeting adjourned at 3:33 p.m.



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