



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
February 29, 2012
Anchorage and Juneau, Alaska; NeiHu, Taiwan

1. CALL TO ORDER

Chairman Short called the meeting of the Alaska Industrial Development and Export Authority to order on February 29, 2012, at 10:50 a.m. A quorum was established.

2. ROLL CALL: BOARD

Members present in Anchorage: Gary Wilken (Public Member), Robert Sheldon (Public Member), G. Wilson Hughes (Public Member), Bryan Butcher (Commissioner, Department of Revenue), and Hugh Short (Public Member and Chair).

Member participating from Juneau: Susan Bell (Commissioner Department of Commerce, Community, and Economic Development).

Member participating from NeiHu, Taiwan: Ron Arvin (Public Member).

3. AGENDA APPROVAL

The Chair asked to move Item 7B - Resolution No. G-12-01 Consent to Change in Control of the Operator of the Ketchikan Shipyard to 7A position followed by the two Executive Sessions of Ketchikan Shipyard and Healy Clean Coal Plant.

The agenda was approved as amended.

4. ROLL CALL: STAFF, PUBLIC

Staff present: Ted Leonard (Executive Director); James Hemsath (Deputy Director-Project Development & Asset Management); Valorie Walker (Deputy Director-Finance & Administration); Mark Davis (Deputy Director-Investment, Finance & Analysis); Chris Anderson (Deputy Director-Commercial Credit); Mark Schimscheimer (Project Manager); Karsten Rodvik (External Affairs); Sherrie Siverson (Executive Assistant); Teri Webster (Administrative Assistant); Shauna Howell (Executive Assistant-AEA).

Others present: Jerry Juday and Brian Bjorkquist (Department of Law); Frank Foti (Vigor Industrial, LLC); Adam Beck (Vigor Marine); Mark Gardiner and Pat Clancy (Western Financial Group); Randy Johnson and Doug Ward (Alaska Ship & Drydock); Natalie Gil and Cindy Bromley (Kron Associates).

5. PUBLIC COMMENTS

There were no public comments.

6. PRIOR MINUTES - February 2, 2012

February 2, 2012 meeting minutes were approved as presented.

7. NEW BUSINESS

7A. Resolution No. G12-01 Consent to the Change in Control of the Operator of the Ketchikan Shipyard

Mr. Leonard reviewed Resolution No. G12-01, which seeks Board approval to transfer the ownership of Alaska Ship & Drydock to Vigor Industrial, LLC. The resolution, based on the Operating Agreement, requires AIDEA to do its due diligence before transferring ownership of the company to ensure that the new operator is technically qualified to run the shipyard. It also requires verification that the operator has the commitment and ability to operate the shipyard as a viable enterprise that promotes economic development and employment in the region. In January after being informed Vigor Industrial was in negotiations with Alaska Ship & Drydock to transfer ownership through a stock purchase, AIDEA designated a team to review the transfer. The team included the director of finance, the director of project management, AIDEA's attorney, and financial advisors from Western Financial Group. Chairman Short met with Frank Foti, the owner of Vigor Industrial, to discuss their commitment and view their operations in Portland.

Mr. Short noted any discussions regarding financials or specific information should be done in executive session in accordance with the Confidential Due Diligence Memorandum.

Mr. Hemsath referenced a memorandum which supports the Board resolution dated February 24, 2012, regarding the consent to change control of Alaska Ship & Drydock. An excerpt of a presentation entitled "Investing in Alaskans" was distributed and reviewed. The review team established by AIDEA reviewed the financial records and shipyard operations. AIDEA will continue to own the shipyard and all of its assets, including future improvements. The Operating Agreement, which envisioned a time when the ownership might be transferred, allows AIDEA to grant approval of the transfer of ownership. The resolution deals with the transfer of ownership, but nothing related to the shipyard itself.

Mr. Hemsath reviewed the objectives and constraints of AIDEA's due diligence review. Under the Operating Agreement, Sections 15.12 to 15.14, AIDEA must grant written approval prior to the sale of the controlling interest, but cannot unreasonably withhold approval. Before granting approval AIDEA must review the qualifications of the new operator, their commitment and ability to operate the shipyard, and ensure a viable enterprise that creates and maintains permanent jobs and long-term economic development for the region. The scope of AIDEA's due diligence was reviewed. The new operator must do no harm and operate the shipyard at least as well as the current operator. The items reviewed included whether Vigor Industrial is a capable operator, financial strength, plans for integrating Alaska Ship & Drydock into the Vigor family, maintaining Ketchikan jobs, their overall ability to fulfill the Operating Agreement, and their consultations with local governments.

Mr. Hemsath said AIDEA's due diligence revealed the following key items:

- The current work performed at Vigor's shipyards is similar to the work done in the Ketchikan shipyard; therefore, Vigor has the necessary capacity and skill sets to manage the Ketchikan shipyard.
- The transfer of ownership will enhance the opportunities at the Ketchikan shipyard to bid on and win Alaskan-based business given the experience, supporting facilities and greater financial capacity of the larger company.
- Vigor has the financial strength to own and operate Alaska Ship & Drydock.
- The additional capital and credit capacity of Vigor Industrial should allow for more aggressive bidding and larger contracts.
- Vigor's goals include developing a trained and competent workforce, maintaining the current workforce, and avoiding disruptive fluctuations.
- Vigor is committed to workforce development in the Ketchikan area similar to what they do in the Portland area.
- Vigor has also indicated that if Alaska Ship & Drydock, under their ownership, is awarded the contract to build the Alaska Class Ferry, the work will be done in Ketchikan utilizing the new infrastructure.
- AIDEA has consulted with the City of Ketchikan and the Borough of Ketchikan, and both are supportive of the transfer. The Ketchikan City Council approved the assignment of Alaska Ship & Drydock's existing Power Sales Agreement, and the Borough of Ketchikan passed a resolution supporting the transfer.

Mr. Hemsath noted staff recommends approval of the transfer of ownership of Alaska Ship & Drydock to Vigor Industrial, LLC, and approval of Resolution No. G12-01.

Mr. Leonard said AIDEA always looks at their public-private partnerships. Endeavor, a private equity fund that does business in Alaska, recently invested \$70 million in the corporation and was very complimentary of Vigor Industrial's management.

Frank Foti, of Vigor Industrial, introduced his team, which includes Adam Beck, from Vigor Marine, and Doug Ward and Randy Johnson, from Alaska Ship & Drydock. Vigor Industrial has a series of shipyards based in Portland, Oregon. He said their sensibility and ethics are aligned with how business is done in Ketchikan. They expressed excitement with the prospect of working in Ketchikan with an adaptable, flexible and hardworking crew. Mr. Foti said critical mass and being able to share resources regionally to be more globally competitive is key. He said he is excited about working in a state where the value of a job is highly recognized and believes that his business starts with the people who work for him; but public-private partnership is a way to build a viable and competitive business, not an entitlement.

In response to Mr. Sheldon, Mr. Johnson said there were currently 120 full-time jobs at the Ketchikan shipyard, although the number can fluctuate seasonally. The history of the Ketchikan shipyard, which was not always recognized as a viable enterprise, was reviewed. AIDEA and the Board were thanked for their commitment to the public-private partnership. Mr. Johnson said through his own due diligence, he determined that Vigor Industrial had a similar management style and would be a good employer for his workforce. Vigor Industrial has already shown their commitment to the employees and there is a positive attitude among the workforce. Mr. Johnson said he planned on becoming an employee and helping with the transition.

Mr. Sheldon noted the current 30-year contract, which began on December 2005, was up for a 10-year renewal in 2015, as well as two more 10-year renewals after that. Several letters

received by AIDEA expressing comments and concerns about the transfer were discussed. If the facilities are not fully utilized, that issue could come under review. Although maintaining permanent jobs and economic development was discussed, the Board should be cognizant of the vacillations in this business, as well as what constitutes a full-time, permanent job or its equivalency. Mr. Sheldon believes all of the issues have been adequately addressed both through the original agreement, as well as the ongoing conversations with the public.

Mr. Wilken thanked Vigor Industrial for their interest and investment in Alaska. Senator Murkowski's letter reiterated that Alaska Ship & Drydock should continue to be an economic engine in Ketchikan and therefore jobs should continue to increase.

In response to Mr. Wilken, Mr. Foti agreed to help AIDEA develop a jobs report to the Board one year, three years, and five years after the ownership transfer was complete. He then discussed the Alaska Class Ferry project, which he felt could competitively bid on and build in Alaska.

The Board further discussed the Alaska Class Ferry project. Mr. Johnson said Alaska Ship & Drydock has been selected as the construction manager and general contractor to develop and finalize the design. Through that process, which will take about a year, several entities will work in partnership to finalize the design with the goal of building the ship in Ketchikan. At the end of that period, Alaska Ship & Drydock will provide a guaranteed price match for the construction, and negotiations with the State of Alaska will begin. If the negotiations are successful, the State of Alaska can issue a notice to proceed and move forward with construction, or they can decide to rebid the project. The design phase and bidding process of the Alaska Class Ferry project was further discussed. The Board expressed their desire to have Alaskan ferries built in Alaska.

In response to Mr. Sheldon, Mr. Leonard said AIDEA would continue to track the Operating Agreement to ensure that Vigor Industrial is operating the shipyard according to the agreement and will provide a yearly report to the Board.

Mr. Wilken requested a separate report from Alaska Ship & Drydock/Vigor to be given to the Board every year detailing job growth at the shipyard. He would like it to be from 1 – 5 pages built for a layman to understand that shows how Vigor's intent has translated into actions. He would like to see the framework for the report be developed by the next AIDEA meeting.

Recess – 11:55 a.m.

Reconvene – 12:00 noon.

7B. Executive Session - Ketchikan Shipyard

Mr. Juday explained the process and topics for executive session.

MOTION: Mr. Wilken moved to go into executive session to discuss Vigor Industrial's financial information, marketing plans, and proprietary confidential business plans. Seconded by Mr. Sheldon. There being no objection, the motion passed.

Executive session: 12:12 p.m.

The Board reconvened its regular meeting at 12:33 p.m.

Mr. Juday said everything covered in executive session was appropriate to the motion.

Mr. Arvin requested a briefing on the Repair & Replace (R&R) report. Mr. Hemsath said AIDEA's due diligence included reviewing the condition of the R&R Fund and found it sufficiently funded, especially in conjunction with state appropriations for deferred maintenance and disbursements of state funds, in Amendment 3 of the Operating Agreement. Last year's Maintenance Scheduling and Estimating Services report was reviewed and indicated a new schedule for the completion of the expansion. There was nothing in the report not understood or being addressed on deferred maintenance issues. Mr. Foti said Vigor Industrial reviewed the R&R report and was comfortable with it.

Mr. Wilken noted that the Board was aware of the local support from the Ketchikan Borough and the City of Ketchikan.

MOTION: Mr. Wilken made a motion to adopt Resolution No. G12-01. Motion seconded by Mr. Hughes. There was no discussion. A vote was called and the motion passed with Mr. Wilken, Mr. Sheldon, Mr. Arvin, Mr. Hughes, Commissioner Butcher and Mr. Short voting yea.

7C. Executive Session - Healy Clean Coal Plant

MOTION: Mr. Sheldon moved to go into executive session to discuss the negotiations related to the Healy Clean Coal Plant. Seconded by Commissioner Butcher. There being no objection, the motion passed.

Executive session: 12:39 p.m.

The Board reconvened its regular meeting at 1:42 p.m. Everything discussed in the executive session was appropriate to the motion.

8. DIRECTOR COMMENTS

Mr. Leonard gave a building space update. He asked board members if they receive inquires or leads on a building, to direct calls to Ms. Walker or the Chief Procurement Officer.

A special Board meeting may be requested in March to discuss the Department of Military and Veterans Affairs building project.

The director's status report of AIDEA programs and projects was distributed to the Board.

Ms. Anderson will provide a follow-up email outlining any potential exposure on the Airport Park judgment issued by the Alaska State Supreme Court against one of AIDEA's borrowers.

9. BOARD COMMENTS

After discussing schedule conflicts, the next board meeting was rescheduled from Thursday, March 29 to Friday, March 30, 2012.

10. ADJOURNMENT

MOTION: Mr. Hughes moved to adjourn the meeting. Seconded by Commissioner Butcher. There being no objection, the motion passed.

The meeting adjourned at 1:50 p.m.



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