



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Thursday, February 20, 2014
Juneau, Anchorage, and Wasilla, Alaska, and Oro Valley, Arizona

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on February 20, 2014 at 11:58 a.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present in Juneau: Chair Dana Pruhs (Public Member); Vice-Chair Russell Dick (Public Member); Susan Bell (Commissioner, Department of Commerce, Community, and Economic Development); Wilson Hughes (Public Member); Michael Pawlowski (Deputy Commissioner, Department of Revenue);

Members present via teleconference: Crystal Nygard (Public Member) and Gary Wilken (Public Member).

3. ROLL CALL: STAFF, PUBLIC

AIDEA and AEA Staff present in Juneau: Ted Leonard (AIDEA Executive Director); Jim Hemsath (AIDEA Deputy Director-Project Development & Asset Management); Michael Lamb (Deputy Director-Finance and Operations, AIDEA and AEA); Gene Therriault (AEA Deputy Director-Energy Policy Development); Mike Catsi (AIDEA Business and Communications Development Officer); Karsten Rodvik (AIDEA External Communications Officer); and Sherrie Siverson (AIDEA Executive Assistant).

Public present in Juneau: Chris Clark (HDR Alaska); Shelly Ebenal (Greater Fairbanks Community Hospital Foundation); Ron Long (City of Seward); Sara Lukin, Hugh Short and Nick Szymoniak (Pt Capital); Senator Lesil McGuire (Senator, State of Alaska); Hans Rodvik (staff for Senator Coghill); Ken Vassar (Legal Consultant); and John Walsh (Lobbyist).

AIDEA staff present in Anchorage via teleconference: Mark Davis (Deputy Director-Infrastructure Development); Leona Hakala (Loan Officer); Matt Narus (Project Manager-Project Development & Asset Management); Bill Phelan (Loan Officer); Jeff San Juan (Infrastructure Development Finance Officer); Lori Stender (Project Manager-Project Development & Asset Manager); Krin Kempainen (Administrative Assistant).

Public present via teleconference: Kathy Black (Birch Horton Bittner and Cherot); Molly Dischner (Alaska Journal of Commerce); Jerry Juday (Department of Law); Sunny Morrison and Miranda Studstill (Accu-Type Depositions); Katrina Timm (HDR Alaska); Ernest Weiss (Aleutians East Borough); Unidentified (First National Bank Alaska); and several other unidentified members of the public..

4. AGENDA APPROVAL

The agenda was approved as presented.

Chair Pruhs invited Senator Lesil McGuire to the table. Senator McGuire commented it is nice to see Mr. Rodvik's son in attendance, who is an intern for Senator Coghill, and thanked him for participating and being a part of the process. Senator McGuire distributed the Committee Substitute for Senate Bill 140 to the board members and said it can be emailed to those on the phone. This bill asks the Legislature to endorse additional powers to AIDEA and said it will be geared towards Arctic infrastructure. The Arctic is vastly underserved and underdeveloped. Senator McGuire said as Co-Chair of the Alaska Arctic Policy Commission, they have identified at least \$100 billion worth of private capital that is waiting to come into the Arctic, where there is a democracy, a stable government, and the opportunity of an unserved location. This bill would place alongside AS 44.88.650 through 690, the SETS fund providing additional power to AIDEA to extend low-interest loans, deferred in on principal, loan guarantees and all of the current powers in SETS toward Arctic infrastructure projects.

Senator McGuire reported a parallel system is being built into Senate Bill 99, which also extends into Senate Bill 140, and provides for additional powers. One of the first changes in the SETS Fund and the Arctic Infrastructure Fund is the limitation that AIDEA cannot participate in funding of more than one-third of the capital cost of an entire project. She believes AIDEA is equipped to decide at what level to participate in the capital cost. The state should be concerned with the loan amount at the general fund level.

Senator McGuire reported the next change is to clarify there cannot be a loan guarantee without a vote of the Legislature in an amount to exceed more than \$20 million. The 30-year timeline has been extended to 40 years. The fund can be used as security for a bond guarantee. The most important change is AIDEA is being authorized to utilize assets transferred to AIDEA from any other fund controlled by AIDEA. Senator McGuire believes this language is meant to offer creativity to AIDEA and the ability to move assets around. Senator McGuire stated she will argue for some capitalization of this bill.

Chair Pruhs asked if there is a limitation of \$20 million of loan and ties into AIDEA's restrictions. Mr. Leonard stated the first limitation was 33% of a project. Twenty million is the limit for a loan guarantee under the new wording. On smaller projects with the old limitation of 33% of a project, it would be hard to actually get the capital to finance. The new wording allows more flexibility on guarantees for the smaller projects.

Chair Pruhs asked how long the \$20 million ceiling has been in effect. Mr. Leonard said the \$20 million ceiling has been in effect since the loan participation program began. Mr. Pawlowski said when he was affiliated with Senator McGuire and working on the initial bill for her, the \$20 million came from existing agreements.

Chair Pruhs asked how much \$20 million in 1994 is in today's dollars. Mr. Leonard noted the amount would be at least double or triple. Chair Pruhs requested Senator McGuire look at today's dollars because AIDEA cannot participate the same amount today as the \$20 million provided 20 years ago. Senator McGuire commented that was an excellent point and will look into the cost of living adjustment on that dollar amount. Mr. Leonard offered his staff if Senator McGuire needed any assistance.

Mr. Leonard expressed his appreciation to Senator McGuire and staff for this bill and for being a main proponent for AIDEA to expand their direct financing ability. Mr. Leonard noted Senator McGuire's experience and leadership has benefitted AIDEA in the last four years.

Mr. Pawlowski asked if there is a connection between the concept of the Arctic Infrastructure Development and anything that was proposed at the federal level. Senator McGuire said they worked closely with the White House and National Strategy for the Arctic Region (NSAR). The preliminary reports have been turned into the Legislature and are on the web at www.akarctic.com. Senator McGuire stated she spoke with Senator Murkowski regarding Alaska getting revenue from the Federal Government from the Chukchi and the Beaufort. The NSAR report does not mention this revenue, but it should. The suggestion is to not let the Federal Government off the hook and avoid the request that the Federal partners be involved.

Mr. Pawlowski encouraged Senator McGuire to review ways to enable and work with the Federal Government to call into the fact they are not stepping up to the table. Senator McGuire commented another really important item in the bill is the expansion of the definition of the Arctic to include the entire state of Alaska as an Arctic state.

Chair Pruhs noted there is a fairly large presence of the Coast Guard in Kodiak that is to be expanded also. Mr. Leonard stated the Coast Guard has already begun discussions with AIDEA about expansions.

Vice-Chair Dick believes the future economy of the state is going to be built on the Arctic. The bigger issue is how to get additional monies into this fund to capitalize it. Senator McGuire believes this is a great conversation, especially as the Governor has defined this fund as a state savings account and an earnings account. AIDEA is benefitting the state in so many ways. She noted Mr. Short has a few ideas about capitalization and recommended discussing those with him.

Commissioner Bell wanted the Board to realize the Commission, Governor's Office, AIDEA, AEA and other agencies worked quickly to provide information to the Federal Government because the main message we are trying to convey to the leaders is we are successfully working in the Arctic. We know the Arctic. This is our area and it is a statewide issue.

Chair Pruhs noted AIDEA gives up to 50% of its profits as a dividend back to the state. One concept could be that 50% would go to the Arctic Fund rather than the general fund. Chair Pruhs expressed his appreciation to Senator McGuire for all of her work on this piece of legislation and noted AIDEA is happy to assist in any way.

5. PRIOR MINUTES - January 14, 2014

The draft minutes from January 14, 2014 were approved as presented.

6. PUBLIC COMMENTS

Mr. Ernest Weiss, Natural Resources Director for the Aleutians East Borough (AEB), wanted to comment on agenda item 7C, the presentation by PT Capital. He stated AEB supports public and private partnerships to provide loan and funding opportunities for fisheries infrastructure, including quota vessels. AEB includes six communities all involved in the fisheries, processing, harvesting and transport of fish. AEB spends much time building new infrastructure, including docks and harbors for the fishing industry.

Mr. Weiss believes there are many advantages to making loans available to communities and Community Quota Entities (CQE) for infrastructure. He provided an example that the North Pacific Fisheries Management Council is moving forward on rationalizing the Gulf of Alaska trial ground fish fisheries and

if there is no initial allocation to communities, AEB hopes to establish a trust of quota to anchor some of the catch shares in the community. This would provide several advantages, including setting requirements to hold a higher standard that may leverage against the rest of the quota and initiating best practices throughout the fishery. It would also maintain local participation and entry level for those fisheries. AEB is very interested in this program and looks forward to the presentation.

7. NEW BUSINESS

7A. Resolution No. G14-04 Approving Greater Fairbanks Community Hospital Foundation Revenue Bonds

Mr. Leonard apologized to the Board about how thick bond documents are and hopes the Board had a chance to read the Executive Summary. Resolution No. G14-04 is to allow AIDEA to move forward with a conduit bond of up to \$60 million for the Greater Fairbanks Hospital Foundation (GFHF) for new construction. AIDEA is acting as the conduit for tax exempt financing. Mr. Leonard invited Mr. Vassar, AIDEA's bond attorney, Ms. Ebenal, Executive Director for GFHF, and Mr. Lamb to the table.

Mr. Lamb explained in essence only the state or municipality can issue tax-exempt bonds for a recognized nonprofit. The GFHF has made an application through AIDEA to issue tax-exempt financing. The documents given to the Board provide all of the guarantees between the different parties. Mr. Lamb noted no assets or revenue of AIDEA will secure payment of the conduit revenue bonds and AIDEA will incur no liability or responsibility for payment of principal, interest or redemption claim with respect to the bond. Mr. Lamb explained AIDEA is provided a fee of \$67,500 and up to \$75,000 to cover the cost of the issuance of the bond.

Mr. Wilken asked if it is simply that nonprofits cannot issue bonds and so have to come to a state agency for conduit tax-exempt financing. Mr. Leonard said under Internal Revenue Service (IRS) regulations and laws only a political subdivision can issue a tax-exempt bonds for 501(c)(3) organizations. Through these documents, AIDEA is actually issuing the bond and then lending the money to GFHF, but all of the liability is taken away from AIDEA. Mr. Leonard noted the IRS has several tests for what types of projects can utilize these conduit bonds. Mr. Vassar stated there is a list in the IRS code of those types of projects and included are hydroelectric facilities, ports, docks, electrical generation facilities, and 501(c)(3) nonprofit corporations.

Mr. Wilken noted for the record his son is a trustee and a member of the Finance Committee of GFHF.

Mr. Leonard believes conduit bonds are one of the main tools a financing authority has in providing funding for projects, especially for major construction of projects for medical and nonprofits. He believes this supports the mission of providing access to long-term reasonable cost of capital. The economic impact is this new construction will generate over 150 jobs per year for construction for a three-year period.

Commissioner Bell noted AIDEA has history with this particular facility for a conduit revenue bond issued three years ago. Ms. Ebenal stated AIDEA also financed the emergency department and imaging center for GFHF in 2004.

Chair Pruhs requested an explanation of the fee structure. Mr. Lamb said the fee structure is 75 basis points for the first million dollars. Chair Pruhs asked how the fee structure was developed, who developed it, and is it statute or regulation. Mr. Leonard stated the fee structure is in regulation. Mr. Vassar noted AIDEA adopted regulations some time ago setting the fees for bond issuances and there is a

fee schedule for conduit bonds. Chair Pruhs asked when the adoption was. Mr. Vassar believes it was seven to ten years ago. Mr. Leonard said AIDEA revisited the regulation three years ago. Vice-Chair Dicks asked if there would be an impact to AIDEA if any of the bonds defaulted. Mr. Leonard stated there would be no impact if a default occurred. That is the way conduit bonds work. These bonds are sold to sophisticated investors who clearly understand these bonds are not backed by AIDEA's obligations or balance sheet and is specifically backed by the revenues of the project. He does not believe there have been problems with any medical facility bonds.

Mr. Lamb reported as of June 30, 2013 AIDEA has 19 conduit bonds outstanding worth about \$485 million. This does not show up on the balance sheet.

Mr. Hughes asked if there is an annual limit of available funds for conduit bonds. Mr. Leonard stated there is a private activity bond limit for the state and AIDEA has a 12-month rolling average issuance limit of \$400 million. Based on projections, the only other bond AIDEA has authority to issue is \$65 million for Skagway Ore Terminal.

MOTION: Vice-Chair Dick moved to adopt Resolution No. G14-04. Motion seconded by Commissioner Bell. The motion passed with board members Wilken, Pawlowski, Hughes, Bell, Dick and Pruhs voting yea.

7B. Resolution No. G14-05 Approving Establishment of a Loan Guarantee Fund under the SETS Program

MOTION: Vice-Chair Dick moved to adopt Resolution No. G14-05. Motion seconded by Commissioner Bell.

Mr. Leonard explained the SETS Fund has the authority to issue loans and to issue guarantees. There is approximately \$67 million in the fund. One of the ways to utilize and leverage the private sector funds is through guarantees. AIDEA would like to ensure the guarantee program is in place and utilize this program to leverage private sector investments through banks. A trust account or indenture needs to be created to ensure the banks that the funds are available for the guarantees. This is the reason for Resolution No. G14-05. The request is to place \$50 million into the Loan Guarantee Fund and would leverage \$150 million worth of private sector funding over the next three years. Mr. Leonard stated if this resolution passes and if the program was not working as well as anticipated, AIDEA could withdraw the non-guaranteed funds from the trust account.

Commissioner Bell requested additional information on communications with banks. She asked if AIDEA has projects in the pipeline that would utilize these guarantees and would regulations have to be developed to define this resolution, if it passes, and what effects would they have. Mr. Leonard said the Board adopted the regulations about three months ago and this resolution is being completed so the program can be utilized through those regulations.

He noted that AIDEA has been communicating and working with banks over the last two years to create this program and believes Commissioner Bell was on the committee to determine what the banks needed in a program. He understands the bankers were in Juneau discussing this issue just two weeks ago and were looking forward to utilizing this program. AIDEA needs to communicate with the small independent power providers so they know they can now work through the banks because of this guarantee.

Commissioner Bell asked if there was anything in the queue, recognizing there will be \$17.5 million after this action. Mr. Leonard believes the guarantees will work and AIDEA is still looking at the possibility that the \$17.5 million may be used with the Interior Energy Project (IEP). He believes Senator McGuire is still working on recapitalizing the portion for the SETS loans. The Legislature does have the ability to appropriate money through the SETS Fund to AIDEA to finance a project.

Mr. Pawlowski asked if this resolution would function the same as AIDEA's current loan guarantee program. Mr. Leonard agreed and noted the current loan guarantee program in AIDEA is \$1 million and is tied to small businesses. AIDEA has the authority to provide guarantees under direct financing, but it is very complicated. SETS is its own fund and is not part of the revolving fund, so this energy guarantee program can be developed. AIDEA does have the ability to move assets between its revolving fund and its SETS fund. There are several ways the statute allows for loans to be funded through this program.

Mr. Pawlowski inquired if AIDEA would be guaranteeing loans that a private lender conducted due diligence on. Mr. Leonard said yes. Mr. Pawlowski requested Mr. Leonard work closely with Ms. Fisher-Goad and the Renewable Energy Fund (REF) Program because some of the projects have not received the full funding to get through construction. If there are local banks that can do the work to support those projects getting completed, this may be a vehicle to enable that. Mr. Leonard agreed this kind of communication is very important and AIDEA is here to support AEA on creative funding for these solid projects as we move forward. Mr. Leonard said Mr. Therriault is a key participant in these communications.

A vote was called and the motion passed with board members Wilken, Pawlowski, Hughes, Bell, Dick and Pruhs voting yea.

7C. Financing Alaska Fisheries Infrastructure, Pt Capital presentation

Chair Pruhs welcomed the representatives from Pt Capital and identified former Chair, Mr. Short, and former employee, Mr. Szymoniak.

Mr. Short, President and CEO of Pt Capital, Mr. Szymoniak and Ms. Lukin of Pt Capital, and Mr. Long, City of Seward, gave a detailed presentation describing both Pt Capital and financing of the Alaska fisheries infrastructure. Pt Capital is a private equity company based in Anchorage looking for different opportunities in the Arctic. This project consists of three key partners; the City of Seward, Aleutians Pribilof Islands Community Development Association (APICDA), and the Association of Village Council Presidents (AVCP).

Mr. Short believes this program should be eligible to community-based nonprofits. He believes there are a number of nonprofits that can joint venture with operating companies. Mr. Short does not believe Community Development Quotas (CDQ's) should be eligible for this program for a period of time for preferential financing because they have received their quota. The federally managed fisheries and state managed fisheries are the target areas.

Mr. Short stated this program provides real opportunities and incentives for non-CDQ communities, low-income communities with high poverty rates, high unemployment communities, and communities with proximity to resources issues.

Vice-Chair Dick asked what is AIDEA's limitation on making these kinds of investments today. Mr. Leonard said AIDEA can work on fishing processing plants through the direct financing program and commercial activity could be managed through the loan participation.

Vice-Chair Dick asked if this program sets up regulations that mandates a certain amount of the return on investment stays within the state. Mr. Short explained if AIDEA finances the program and the below-market interest rate is accepted, the participant commits to relocating their operation to the state of Alaska. He stated this is a first step in a five or ten-year process to build the necessary infrastructure to support relocation of fleets.

Commissioner Bell stated she remembers this process developing and asked what the prior dollar amount was in the calculation. Mr. Short noted their vehicle is SB 140 and in order to make a real impact in this industry, he estimates it is going to take \$1 billion or \$2 billion of capital. He gave the example of one company's market price at \$1.4 billion and AIDEA comes in for a third of that, which would be anywhere from \$300 million to \$500 million just on that one transaction potential. Commissioner Bell believes the CDQ program is tremendous. Mr. Short stated it is exciting for the possibility of a CDQ and a regional nonprofit working together in this program.

Vice-Chair Dick asked if the focus is that the facility will attract the people and this program is financing the facility. Mr. Short noted this program is financing the quota. He explained the federally managed fisheries are a market driven quota system where an entity can buy and sell and owns a percentage of the total allowable catch (TAC). The TAC moves up and down every year. The percentage of ownership of the TAC is completely transferable. The CDQ owns 10% of the TAC and the remaining is primarily owned by outside entities not based in Alaska. Pollock is the biggest fishery.

Mr. Hughes asked what the security is for the loan. Mr. Short said the security is the quota. In the case of a default, the asset is foreclosed upon and sold to the highest bidder. In a worst-case scenario, there will be other lenders involved and AIDEA will not be the senior or junior debt, but probably the mezzanine debt.

Mr. Hughes asked how is the ease of getting an Alaska business license from an outside entity going to be managed in this program. Mr. Short believes one of AIDEA's most persuasive assets is the ability to require certain debt covenants within the debt agreements. These covenants are negotiated between the borrower and the lender and can include leverage ratios, dividends, location of ships and others.

Mr. Pawlowski asked if the essence of the plan is by the market and creating the need for the infrastructure. Mr. Short agreed and noted it is like what Washington did with Boeing and New York has done with Alcoa, which is to incentivize companies to stay and then it is hard for anyone to move once the market is there. He believes there is an opportunity and it will take the determination to be aggressive and get the business from other parts of the world.

Mr. Wilken asked for a reconciliation of slide 11 and slide 13, which lists targeted low-income, high-unemployment communities and the statement of no gifts or grants and expected economic development with no subsidy. He believes these two slides seem to work against one another. Mr. Short stated the best example is that of the federal government declaring economic enterprise zones in America that are urban or rural banks that have very little capital coming in. The government has incentivized banks through tax credits and other mechanisms to lend and invest into those areas. Mr. Short explained this program is based on that model and is creating special economic zones that potentially expands the boundary of the CDQ program to ultimately make it a state incentivized area that sits nicely with what the federal government has done.

Mr. Wilken asked if AIDEA is shielding itself from a difficult loan by shedding the financial responsibility to a majority partner. Mr. Short disagreed and believes all of the loans need to be

underwritten based on good economics and good underlying factors. There should not be any risky loans completed. He believes the target areas with their historical cash flows and the right ownership mix are low-risk loans. The attraction pull to Alaska is the reduced interest rate on the mezzanine debt in the capital stack. Mr. Wilken respectfully suggested Mr. Short review those two slides and make them congruent. Mr. Short stated he will follow up on that suggestion.

Chair Pruhs asked for further explanations regarding the incentives within the communities, such as tax incentives, that would help keep assets from going south for repairs, for example. Mr. Long noted Chair Pruhs brings up a critical distinction between a fixed plant and a moveable asset like a vessel. He noted Seward, as a community, has looked at their tax structure and how they can make it attractive to the small business owner and competitive for the midrange to high-end range vessels.

Mr. Leonard requested a clarification regarding quotas. He understands bankers are prohibited by law from using quotas as collateral for loans. Mr. Short clarified traditionally when a ship is put into service, it has a quota attached to it and what is generally used as a collateral vehicle is the ship, the tangible vessel. He believes there is a real need to start retrofitting and replacing some of the vessels operating in the Bering Sea, which is another part of this program that has not been discussed.

Chair Pruhs asked if the ship is also authorized to buy or lease other people's quotas through consolidation. Mr. Short agreed.

Commissioner Bell believes there needs to be critical mass of other related services available in Alaska for fleet relocation to be possible.

7D. Resolution No. G13-05A Amendment Approving Construction of a Storage Facility at the Skagway Ore Terminal for Eagle Whitehorse, LLC

MOTION: Vice-Chair Dick moved to adopt Resolution No. G13-05A. Motion seconded by Commissioner Bell.

Mr. Leonard stated, in June 2013 the Board gave AIDEA direction to go forward with the construction of the storage facility at the Skagway Ore Terminal. This is a revised amendment to that project agreement. Mr. Leonard requested Mr. Hemsath to review the project and provide the details of the agreement.

Mr. Hemsath described the amendment and said after the approval of Resolution No. G13-15, Eagle Whitehorse's financing became nonexistent on this particular project. He noted many different scenarios were considered to determine a solution. The project itself is still an expansion of the terminal. The design has been modified in concept, where the terminal is approximately 20 feet higher. This will allow an accommodation of any kind of stacking conveyor for some of the larger mines and make it more attractive.

Mr. Leonard noted DOT has provided a response stating the current loads of this project will not materially impact their maintenance budgets, as suggested by Mr. Wilken and the Board.

Chair Pruhs asked if Eagle Whitehorse is a U.S. company or a Canadian company. Mr. Hemsath stated Eagle Whitehorse is a U.S. company in Miller Park, California. Chair Pruhs asked if Eagle Whitehorse is operating in Canada as a U.S. company. Mr. Hemsath stated he does not know the answer to that specific question. Chair Pruhs asked if there is anything on the asset side and the Canadian border we need to be concerned about. Mr. Hemsath stated there are no concerns and no Canadian assets are being used as collateral.

Mr. Pawlowski asked if the Klondike Highway is a Road-to-Resources project. Mr. Leonard understands there is some capital this year to improve the bridge and the bridge is the key to this project; it is a one-way bridge. Mr. Pawlowski noted the policies which include fees on this bridge and on the road itself. The trucking component is significant to this project. He asked if there has been any analysis of how much of the trucking component is related to fees vs. related waiver and truck. Mr. Hemsath stated he will provide that number to Mr. Pawlowski, but the majority of that number is waiver and truck. The fees are relatively modest and the increase is about a 20% increase on the license, which is not a major component.

Chair Pruhs asked if there is anything Canadian companies can do to attach a lien to the materials that are to be shipped. Mr. Hemsath stated he is not aware of anything, but he will research and provide a complete answer. There has been a tremendous amount of discussion with the Yukon government about having this project go forward and he is not aware of any liens that could be attached.

Chair Pruhs asked who owns the product. Mr. Hemsath said Eagle Whitehorse, LLC owns the product all the way through the shipment. Mr. Leonard noted AIDEA's collateral is not the actual product. The collateral is the building, plus the security deposit.

Chair Pruhs asked what happens if there is a problem when their asset is on another property. Mr. Hemsath stated AIDEA could own that product as a collateral aspect, if needed, especially if Eagle Whitehorse has abandoned the site. Another aspect is Eagle Whitehorse has a contract with Dominion who is picking up the sale of the product. If Dominion fails to pick up the product, Eagle Whitehorse cannot market the product.

Chair Pruhs said he was curious about the relationship because the asset is being sold to pay AIDEA and if there is a problem on the Canadian side, then AIDEA will not receive their funds. Mr. Hemsath agreed the revenue stream is coming from the sale of the product and advised there is a consideration that the sales agreement include reserves to be set aside by Dominion to pay Eagle Whitehorse. AIDEA's collateral is focused entirely on the building, physical collateral, and the reserve account.

Chair Pruhs requested more information about the legal ramifications of Eagle Whitehorse, LLC and its Canadian counterpart. Mr. Hemsath noted he does not currently have a specific answer, but will reflect in a different way. He gave the example of a tenant Capstone mining that for the last seven years has been moving product out of their Minto Mine through the shed. This is a Canadian mine and Canadian company. All of the collateral and payment issues have been with that Canadian company and there has not been an issue of transfer or legal aspects of a Canadian product on U.S. soil. It has basically gone from Canada to Skagway to Canada.

Chair Pruhs noted the way it works in Alaska is if there is a product and it is delivered and that entity uses it for the benefit of themselves, but they did not pay for it, the entity that provided the product has a lien on it and can go take it. He is curious about this scenario when it involves Canada and Alaska, if Canada could theoretically come and take the shed product, sell it and not have to pay anybody. He asked what the volume is at any given time in the shed. Mr. Hemsath noted it is about 40,000 tons.

Chair Pruhs requested this issue gets reviewed further to ensure AIDEA is covered and we understand the complexities of the different ownership of the product. Mr. Hemsath noted AIDEA's agreement is with Eagle Whitehorse, LLC, who owns the product and has a sales contract with Dominion, LLC. Mr. Hemsath does not know if Eagle Whitehorse, LLC is a Canadian company, but they have the rights to the tailings and have received all the permits from the Yukon Territory to mine the product. He assumes

Eagle Whitehorse, LLC is registered in Canada, but he does not know if they are a Canadian company. Mr. Juday said his understanding is Eagle Whitehorse, LLC is a Nevada entity, who has a permit to operate in Canada.

Mr. Hughes asked if this could be an American company owning a Canadian company. Mr. Hemsath stated it could be that or it could be an American company operating in Canada. Mr. Hughes asked if the underlying facility of the loan AIDEA is recovering at 3% for the facility being built has all sunk cost in this transaction. Mr. Hemsath agreed and noted the original purchase is all sunk cost. He stated the 3% recovery is the worst-case number based on the sales contract. Mr. Leonard noted AIDEA is getting more than 10% when the reserve is paid.

Chair Pruhs asked if the worst case is having a building on an asset AIDEA already owns. Mr. Leonard said if no funds are received, then AIDEA has built an asset they will be able to use in the future. Chair Pruhs asked if this lease will be used to finance an improvement on something that AIDEA owns and has invested in. Mr. Leonard agreed and noted that is an advantage to the lease. Mr. Hemsath noted this is an expansion of the existing facility AIDEA owns on a lease to 2023, with a new lease from 2023 to 2050.

Chair Pruhs asked if this was like a short-term lease, in which AIDEA does not usually engage. Mr. Leonard provided a history of Skagway and noted the financing for the improvements at Skagway are the same as this proposed financing. He reported Eagle Whitehorse, LLC is a smaller company who is conducting a very short-term project. This is a more risky project, but based on the fact AIDEA can utilize this addition as we move forward helps the economic impact of the community.

Chair Pruhs asked if the Board will get to see a financial statement on Eagle Whitehorse, LLC. Mr. Hemsath stated the financial information used to make the analysis can be provided to the Board. Mr. Leonard noted the financial information can be included in the due diligence. Chair Pruhs suggested the information could be confidential and provided at the time of the meeting.

Mr. Hemsath noted Eagle Ventures, LLC, the owner of Eagle Whitehorse, LLC, is a modest organization that has very little in terms of resource or capital. They have the permit and the ability to mine the magnetite and a sales contract with a buyer to buy the magnetite. The project is based on the project revenue based on the sales contract. If Eagle Whitehorse does not have the money to start the project or if they do not have a sales contract that ensures the sale of the product, AIDEA will not release funds. Once Eagle Whitehorse begins moving product, AIDEA will collect the security deposit in addition to the lease itself.

Chair Pruhs asked if AIDEA would ever have to be in the position to move the product. Mr. Hemsath stated AIDEA would not be in a position to move the product. He explained if a scenario occurred where the product had to be moved from the building, the ship loader could be utilized or AIDEA could work with Capstone to move the product.

Mr. Pawlowski requested more information regarding the calendar in the report and how long it will take to construct the building. Mr. Hemsath noted this is about a six-month type operation. The concrete pad is already in place and the shed needs to be assembled. The objective is to have the first shipment by the end of the year. Mr. Pawlowski asked if this is a year-round operation. Mr. Leonard said yes, Eagle Whitehorse is a year-round operation. Mr. Hemsath noted Capstone mine has to stop for a certain part of the year because they barge their trucks across the Yukon in the summer and they wait for an ice bridge in the winter. So there is about a month-and-a-half when they do not ship.

Mr. Pawlowski asked if the reserve account starts in the first full year of operation and gets deposited over three years. Mr. Hemsath said yes.

Chair Pruhs asked for clarification on the intent for the additional capital cost of \$500,000 in 2016 on page 19 of the report. Mr. Hemsath stated this is for an additional piece of equipment at that point in the project to move more product.

Mr. Pawlowski asked if the terminal costs were at the Skagway Ore Terminal. Mr. Hemsath said yes. There is an operator who will move the product. Mr. Pawlowski asked if that operator pays AIDEA a lease payment. Mr. Hemsath said the operator does not pay AIDEA a lease payment because this is an operator hired by Capstone to operate the facility.

Mr. Pawlowski asked if the balloon payment in 2019 has an impact on AIDEA's dividend or does that get spread out in the earnings calculations. Mr. Hemsath noted the balloon payment will have an impact on AIDEA's dividend.

Ms. Nygard asked if the contract commitment from the buyer is for five or ten years and is the price fixed for the entire time. Mr. Hemsath said the agreement that is in place, but not signed yet, is with Dominion for a fixed amount of about 1.4 million tons. The price is fixed at \$72 a ton. This is a five-year contract. The project could be completed before five years if the product is able to be moved quickly. If the project is moving at a slower rate, there is an option for a one-year extension of the contract.

Ms. Nygard asked when the contract is expected to be signed. Mr. Hemsath stated it will most likely be a simultaneously signing with the permit and approval by the AIDEA Board. He expects to have the contract signed in three to four weeks and it is a condition of AIDEA's agreement with Eagle Whitehorse. The resolution defines a condition that funds will not be released until the contract is executed.

Mr. Wilken expressed appreciation for the follow-up on the letter from the DOT regarding the 30 trucks a day and it seems the DOT recognizes what AIDEA is agreeing to and understands it will have no effect on the highway. He noted he is going to provide an article from "National Geographic" for the members of a topographical map of the Yukon showing the different mines.

Chair Pruhs asked if the owner personally guaranteed the lease. Mr. Hemsath believes AIDEA is looking to the contract to guarantee the lease and not the owner. Mr. Juday agreed, and noted the owner refused to guarantee the lease.

Mr. Pawlowski asked when the negotiations for the new lease of the Skagway Ore Terminal with the Municipality of Skagway is going to close and when is that lease up. Mr. Leonard stated that lease is up in 2023. AIDEA is in the middle of that negotiation. Mr. Pawlowski wants to ensure that AIDEA is making improvements to a facility, that we will maintain the lease during the period we are currently contracting for. Mr. Hemsath agreed. Mr. Leonard noted no major improvements will be made until AIDEA has a longer lease.

Mr. Leonard introduced Mr. Walsh. Mr. Walsh said he is a registered lobbyist with the Municipality of Skagway. He commented these agreements are complicated, but very exciting. Skagway has a history of transport and is a strategic location.

Vice-Chair Dick asked for an explanation of what this resolution accomplishes. Mr. Leonard stated this resolution infuses more economic development and activity by expanding the terminal. Also it provides the Yukon government and the Yukon mining companies a port to be used as competition with other

ports. Vice-Chair Dick asked what this resolution provides for Skagway. Mr. Leonard noted there will be construction jobs created, economic activity, and property taxes. Mr. Hemsath stated there will be short-term construction jobs created and an increase in permanent jobs, and that 50% of the driving jobs will be Skagway-based. This demonstrates to other mines that Skagway is open for business. This will increase the property taxes.

Chair Pruhs requested more detail of the benefits to the municipality be included in future reviews, including the tax base.

Mr. Pawlowski commented the lateral relationship between the Yukon and Alaska is really deep and really strong and believes there is a lot of opportunity here going forward.

Chair Pruhs said the concept is great. His concern is with the borrower not being willing to provide a personal guarantee and the perception this sends.

A vote was called and the motion passed with board members Wilken, Pawlowski, Nygard, Hughes, Bell, Dick and Pruhs voting yea.

Commissioner Bell reported she will be leaving the meeting shortly and wanted to provide her parting comments. She noted she provided an email to the members with departmental information. United Fisherman of Alaska (UFA) is having a reception and members are invited. Commissioner Bell presented to UFA yesterday highlighting AIDEA and the Division of Economic Development small business loans.

7E. Interior Energy Project Update (IEP)

Mr. Leonard invited Mr. Clark, of HDR, Mr. Therriault, and Mr. Davis to present an update of the IEP facility, trucking, and distribution.

Mr. Hughes asked for an update on the offer to sell the pad Spectrum had. Mr. Leonard reported AIDEA is still in the process of analyzing that offer and no decision has been made. Mr. Hughes asked for clarification of the note stating "pad build." Mr. Leonard stated pad build and design means a contractor will design and build the pad based on AIDEA's specifications. Mr. Hughes asked if AIDEA is prepared to either buy the pad or build the pad. Mr. Leonard stated Spectrum does not have a built pad and wants to sell AIDEA their site location, their lease, and their current pad. Mr. Leonard believes the procurement is an important step to ensure there is someone who can build the pad in time to begin construction. Mr. Hughes asked if the building will occur in the fall of 2014. Mr. Leonard agreed.

Chair Pruhs requested the original charts be shown and then specifics be highlighted. Mr. Leonard agreed.

Mr. Pawlowski asked if AIDEA will be securing all of the oil and gas (O&G) purchase agreements or will this be an activity of MWH. Mr. Leonard said this will be an MWH activity. AIDEA will be supporting MWH in trying to coordinate all of the parties involved. MWH is currently meeting with Golden Valley Electric Association (GVEA), Fairbanks Natural Gas (FNG) and Interior Gas Utility (IGU) on those issues.

Mr. Wilken asked if the schedule reads by March 31, 2014, the subscriptions will be made from those who intend to purchase product from the liquefied natural gas (LNG) plant. Mr. Leonard noted that is the intent. The subscriptions have to be in before a final agreement can be made by May.

Mr. Wilken commented there is an issue with the amount of gas that GVEA is going to take. Another issue is where FNG is going to pull from Point Mackenzie or pull off of the Slope. Mr. Wilken believes if either of those two issues go wrong, there will not be a project. Mr. Leonard stated the final date for the commercial agreements is May 15, 2014. Mr. Davis noted MWH is discussing the potential purchase agreements with the customers. AIDEA is focusing on the financing packages for the utilities that will be buying the gas.

Mr. Wilken noted the slide showing the date for the subscriptions by the end of March is not accurate and instead it should read by mid-May. Mr. Davis advised MWH's goal is to have a good readout on the subscriptions by the end of March and that is why that date was used.

Mr. Pawlowski requested clarification if another Board resolution has to be passed in order for AIDEA to spend more money on this project. Mr. Leonard stated project development funds are being spent. The IEP Committee has approval to spend money on the pad and investment for the deposit on the long-lead items. Those have to run parallel and they are risks in the event this project does not go forward.

Chair Pruhs expressed his concern about the process of securing LNG purchase agreements with potential customers because of the unknowns regarding the burner tip price, finance structure, build-out, AIDEA's participation, or if there is going to be another contract with British Petroleum (BP). Mr. Leonard stated all of those issues are being discussed as part of the project development agreement process. Chair Pruhs noted that process is with MWH and has nothing to do with the build-out with IGU and the commercial terms AIDEA is offering. Mr. Leonard stated those issues run parallel in the distribution section, which will be discussed later in the presentation. The fixed bid from MWH's contractor and the project development issues have to be resolved before the final agreement at the end of May. All of the parties understand the timeframe.

Chair Pruhs asked what commitments AIDEA will make before the final agreement in May. He asked what kind of financing will AIDEA provide IGU, including the amount of money and the interest rate, so IGU will know what their costs are going to be. Mr. Leonard stated these specifics will be determined in the project development agreement and in the final commercial structure. Chair Pruhs asked if the timeframe is by the end of March. Mr. Leonard stated the timeframe is by the end of May.

Chair Pruhs expressed his concern there will not be take-off agreements because the downstream from the LNG plant has not been defined. Mr. Leonard stated the downstream from the LNG plant will be defined by the end of May.

Ms. Nygard asked what happens if MWH does not secure any purchase agreements. Mr. Leonard stated the project will not move forward or AIDEA would have to make the decision to move forward and build the project themselves based on not having off-take agreements. AIDEA has always communicated to the Legislature that key to this project moving forward is the community has to commit to the off-take agreements.

Chair Pruhs asked if all of the utilities will be charged the same amount for the gas. Mr. Leonard stated as far as AIDEA is concerned, they will be charged the same amount. Chair Pruhs asked if there will be a clause in the contract stating each group gets charged the same amount. Mr. Leonard noted that cannot happen because the term sheets designate preferred customers, utilities and industrial users in Interior Alaska, who have a specified price. A different price could be set for other groups like transportation.

Mr. Hughes asked if the price will be the same even if the entities are committing to grossly different quantities. Mr. Leonard stated the preferred customer prices would be the same. This issue could be discussed in the final commercial agreement and would have to be brought in front of the Board to change.

Mr. Clark continued with the transportation specifics and the feasibility analysis portion of the presentation.

Chair Pruhs asked if the trucks have a five-axle trailer. Mr. Clark agreed. Chair Pruhs asked what is used in Canada. Mr. Clark stated he does not have the photo showing what is used in Canada now running from Vancouver up to Inuvik, but it is a little bit larger capacity and is over the axle weight limits in Alaska.

Chair Pruhs commented he believes it would be more effective to take the weight of the axles away and add more product weight. He asked if that scenario is possible. Mr. Clark reported this would increase the load. He directed the Board's attention to page seven of the report showing the 5-axle trailer and explained the two axles in the middle are weighted at about 6,300 pounds each. Chair Pruhs asked if AIDEA can request an exemption from the DOT to do what the Canadians are doing in the Arctic. Mr. Clark agreed that is possible. He has reached out to Dan Smith, Director of Weights and Measures at DOT, and posed that exact question to him. Mr. Clark reported Mr. Smith is currently evaluating that scenario and is looking at the concerns of the bridge limits and funding from the U.S. DOT requirements.

Chair Pruhs asked if AIDEA has determined the burner-tip cost savings if the two axles were replaced with the weight of material into the tanker. Mr. Clark noted the burner-tip cost savings has not been calculated under that scenario. Chair Pruhs believes that calculation would be instrumental in the case with DOT to show the pricing differential and it also reduces the number of trucks on the road.

Mr. Wilken asked if the numbers in the LNG transportation analysis based on 12,600 gallons or on 11,500 gallons. Mr. Clark stated the numbers are based on the revised 12,600. Mr. Wilken asked if the rig placed into the analysis is a diesel powered semi with a 5-axle, 12,600-gallon LNG trailer. Mr. Clark agreed.

Mr. Hughes noted he has to leave to take a call, but wanted to ask his question before he left. He requested clarification on the transportation plan and the price. Mr. Leonard stated the current plan has not changed from the FOB plant. Mr. Hughes asked if that plan requires the utilities to determine who will truck the material. Mr. Leonard agreed and AIDEA would assist the utilities in that process. Mr. Hughes stated the utilities will have to calculate their final delivery cost to the storage facility in Fairbanks. Mr. Leonard agreed. AIDEA will take all of the work product associated with the trucking association and give that to the utilities.

Mr. Hughes asked if AIDEA would be involved in the trucking business of owning trucks and trailers. Mr. Leonard stated AIDEA could assist with the financing of the trailers under the statute, but they would be leased to the utilities. This would be a way to lower the total cost of trucking. AIDEA would not have the responsibility of the trucking contract or be in the trucking business.

Chair Pruhs asked when is the full 9Bcf anticipated to be produced. Mr. Leonard believes that swing will be reached in 2018.

Mr. Wilken asked what trucking assumptions are used regarding drivers and trip times. Mr. Clark noted the assumption is 56 tractors and completed by individual drivers. This is a 13-hour trip going north, plus

a 10-hour rest, and a 13-hour trip going south. There would be 48 trucks moving during the day. Mr. Clark believes less tractors could be used with a hot-seat.

Chair Pruhs believes there could be drivers up at Prudhoe getting out of one truck, taking a rest, then getting into another truck and bringing it south. Mr. Wilken stated that is the hot-seat philosophy. He has spoken to experienced truck drivers on this road and they believe the hot-seat philosophy does not work and will not operate in a hot-seat trucking situation. Mr. Wilken does not want to bypass this issue because an individual driver's trip is 52 hours versus a hot-seat driver's trip of 28 hours. This is a core assumption that is being made and it needs to be addressed now. AIDEA has to make sure the assumption of the operating philosophy to hot-seat is going to be accepted when it comes time to bid this project, because how long it takes for a roundtrip is the cost. Mr. Wilken noted again he has been told by multiple people that Carlyle, Lyndon, and Great West do not hot-seat their trucks. The drivers have their units and they drive their units up and down that road. He requested follow-up on this issue because this project hinges on this operating philosophy.

Chair Pruhs noted the opportunities to follow-up on these issues will come forth as this project moves ahead. He stated there is also a concept of changing trailers as opposed to hot-seating the truck. Chair Pruhs believes the critical component is the trailer.

Mr. Clark stated he has received the same feedback from the industry as Mr. Wilken and the information is based on an individual driver and not on hot-seat drivers. Mr. Wilken disagreed because page 9 of the transportation analysis on Table 4 states 52 hours for a roundtrip with an individual driver and Table 3 shows 28 hours for a roundtrip for the hot-seat operating philosophy. Mr. Wilken requested clarification, not necessarily now at the meeting, on how to reconcile page 8 and page 9 on this hot-seat issue. Mr. Clark stated he is willing to discuss the issue with Mr. Wilken. Mr. Wilken provided his phone number.

Ms. Nygard commented she has the same elevated concern as Mr. Wilken because there is a 40% variable in cost between an individual driver and a hot-seat driver and wants to ensure this is considered as we look at the economics. Mr. Leonard noted this remains a concern and it is a critical point to the project.

Chair Pruhs asked if the proposed build-out of pipe is economically viable. Mr. Therriault noted the proposed build-out is to the boundaries and there may be areas the utilities would determine not to complete the build-out. Mr. Leonard stated an estimate of FNG's six-year build-out map was sent to the Board.

Chair Pruhs asked if there has to be a transmission line between Fairbanks and North Pole for the IGU to work. Mr. Therriault stated there does not have to be a transmission line between Fairbanks and North Pole for this to work. Chair Pruhs asked if a pricing difference is anticipated between the utilities. Mr. Therriault believes there will be a pricing difference because of volume.

Chair Pruhs inquired if there needs to be a distinction in burner-tip price between Fairbanks and the borough when it comes to completing the analysis of the project. He asked how this fits into the overall analysis of the market and the cost/benefit ratio to the consumer. Mr. Therriault believes the range is between \$14.50 and \$17.00. Mr. Leonard stated AIDEA needs the business models from the utilities before AIDEA issues any funds for the distribution system.

Chair Pruhs stated this was modeled on an assumption that was changed by the RCA and now AIDEA has to deal with the fall out of that change and does not want pressure on AIDEA or government to make up the delta. Mr. Leonard agreed and noted AIDEA can control getting the gas to Fairbanks as

inexpensively as possible, but has no control over the total cost of the utilities, especially due to the RCA hearing

Mr. Pawlowski asked what oil price was used for the assumptions in the analysis. Mr. Therriault believes most of these were based on \$100 a barrel oil, which is about \$4 heating oil.

7F. Executive Session - Interior Energy Project

The Board did not enter into an Executive Session.

8. DIRECTOR COMMENTS

8A. Director's Status Report of AIDEA Programs and Projects

Mr. Leonard reported Ezion has taken over ownership of their portion of the Buccaneer rig. AIDEA has received the first two dividends on the Buccaneer rig of \$4.3 million. ACES payments by August of \$3 million is anticipated. The first dividend on the Mustang project has been received of \$4 million.

Two pieces of legislation have been introduced by Senator McGuire and a third piece of legislation to set up a fund to assist in processing facilities on the North Slope, providing bonding up to \$200 million without going back to the Legislature.

Mr. Leonard noted MWH is going to be in Anchorage with their full team and partners on March 5 and 6, 2014, and a briefing with Board members can be scheduled. Mr. Leonard will discuss this further with Chair Pruhs.

8B. The next regularly scheduled board meeting will be Thursday, March 27, 2014.

9. BOARD COMMENTS

Chair Pruhs stated he will pass along Mr. Wilken's comments to the Board regarding emails to the Board versus to individuals. Mr. Wilken noted he likes to respond and likes to hear what other members are saying.

Mr. Wilken requested Mr. Hemsath find out if the results from Arco's Kenai plant are available to Nexant to determine whether gas to liquids (GTL) is worthwhile. Mr. Wilken expressed interest in having the next meeting be a two-day meeting so the Board is not pressed for time.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 4:43 pm.



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