



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Wednesday, February 25, 2015
Anchorage, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on February 25, 2015 at 10:52 a.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present: Chair Dana Pruhs (Public Member); Vice-Chair Russell Dick (Public Member); Jerry Burnett (Deputy Commissioner, Department of Revenue); Wilson Hughes (Public Member); Crystal Nygard (Public Member); Fred Parady (Acting Commissioner, Department of Commerce, Community, and Economic Development); and Gary Wilken (Public Member).

3. ROLL CALL: STAFF, PUBLIC

AIDEA Staff present: Chris Anderson (Director-Commercial Finance); Mark Davis (Chief Infrastructure Development Officer); Sara Fisher-Goad (AEA Executive Director); Jim Hemsath (Director-Project Development & Asset (PDAM)); Michael Lamb (Chief Financial Officer); Gene Therriault (AEA Energy Policy and Outreach Director); Tom Erickson (Chief Procurement Officer); Leona Hakala (Loan Officer); Jennifer Haldane (Human Resources Director); Matt Narus (PDAM Project Manager); Karsten Rodvik (External Affairs Officer); Jeff San Juan (Infrastructure Development Finance Officer); John Springsteen (Infrastructure Development Officer); Nick Szymoniak (Energy Infrastructure Development Officer); Kirk Warren (AEA Project Manager); Catherine Bliss (Administrative Assistant); and Krin Kempainen (Administrative Assistant).

Public: Rick Adcock and Chris Brown (MWH); Alan Bailey (Petroleum News); Kathy Black (Birch Horton Bittner & Cherot); Elwood Brehmer (AK Journal of Commerce); Tim Gallagher (HDR); Mark Gardiner (Western Financial Group); Jerry Juday (Department of Law); James McConnell (McConnell and Associates); Sunny Morrison (Accu-Type Depositions); Jay Page (First National Bank Alaska (FNBA)); Bob Shefchik (Interior Energy Project); and Mark Slaughter (Cook Inlet Energy).

Public participating via teleconference: Kelly Helmbrecht (Brena, Bell & Clarkson); and John Parrott (Ted Stevens Anchorage International Airport (TSAIA)).

4. AGENDA APPROVAL

Chair Pruhs requested moving item 7D. Executive Session to follow item 9. Board Comments.

The agenda was approved as modified.

5. PUBLIC COMMENTS

John Parrott from the Ted Steven Anchorage International Airport (TSAIA) stated his working experience with AIDEA on the FedEx lease renewal has been very pleasant. FedEx is a very important anchor tenant for the airport and he looks forward to finalizing the lease renewal.

6. PRIOR MINUTES - December 16, 2014, January 14, 2015, and February 5, 2015

MOTION: Vice-Chair Dick moved to approve the minutes of December 16, 2014, January 14, 2015, and February 5, 2015. Motion seconded by Mr. Wilken.

Mr. Wilken requested the December 16, 2014 minutes be corrected on page 7 where it states, "Mr. Wilken noted for the record he received a confidential answer that it costs operators on the Slope \$2.00 a Bcf to handle the 8 Bcf a day." Mr. Wilken corrected this passage noting he did not receive a confidential answer and his source of information was his memory in regard to Alaska Gasline Inducement Act (AGIA) legislation in 2006.

Mr. Wilken requested clarifying for the readers on page 10 of the December 16, 2014 minutes that MOC1 is the Mustang Operations Center #1.

The minutes were approved as amended.

7. NEW BUSINESS

7A. Loan Resolution No. L15-02 Robert C. and Novella S. Larson, Robert C. Larson Revocable Trust of 2000

Michael Lamb, Acting Executive Director, invited Chris Anderson and Jay Page of FNBA to present Loan Resolution No. L15-02. Ms. Anderson said this resolution is a request for a 90% loan participation in a \$3,885,000 loan in the amount of \$3,496,500 for a fixed 25-year term. FNBA would be at a variable rate for 12.5 years. The loan is to refinance an existing multi-tenanted office building at 341 West Tudor. Approximately six new Alaskan jobs will be created. The property will be managed by Curt Nading, a long-time realtor and property manager. AIDEA would take a first lien position on the property, which was appraised as is for \$6,946,000 and at a stabilized value of \$7,100,000.

Ms. Anderson stated this loan resolution would give a 56% loan to value and is well within guidelines. The debt service coverage is acceptable at 1.81 to one, and by actual rents, at 1.42 to one. The leases are to be subordinate to the deed of trust. The payoff would include 30 days interest plus associated fees and costs. AIDEA has had prior debt relations with this entity over the last 10 years. The entity has three related loans with a cumulative balance of \$4,829,000. All loans have been paid as agreed. The proceeds would refinance the existing loan and provide

funds to pay off a construction loan for another property on Abbot. The total AIDEA exposure would be \$6,873,213.

Ms. Anderson noted the basic financial information was provided to the Board in a separate credit presentation. There are no known environmental issues with this property. The strengths include the low loan to value, the acceptable debt service coverage, and the excellent credit, repayment history, and character quality of the borrower. The weaknesses include a potential downturn in the market because of the oil prices, which would have a much wider impact than this specific request. Ms. Anderson believes the commercial real estate market in the Anchorage area is currently very stable.

Ms. Anderson said AIDEA's statewide portfolio, as of year-end, has 19.84% in the office industry and would increase to 20.62% with this loan request. Within the Anchorage region, AIDEA has 29.36% within the office industry and would increase to 30.64%. The primary focus in AIDEA's portfolio diversification is retail, tourism, and office industry. AIDEA has funding capacity for this loan request. Staff recommends Loan Resolution L15-02 for approval.

Acting Commissioner Parady requested an explanation of the nature of the six jobs that will be created by this loan. Ms. Anderson stated the job certification was provided to FNBA and is related to the tenants. Mr. Page indicated there are 15 tenants and one vacancy. The size of the vacant unit would likely result in approximately six employees.

Acting Commissioner Parady asked for more information on how refinancing an existing construction loan fits into AIDEA's mission. Mr. Page stated the construction loan was made after an AIDEA commitment was issued on the property on Abbot. The commitment required the property be 100% leased. The Larson's paid a 1% extension fee every month for over two years waiting for a tenant to lease the top unit. Mr. Page explained as the Larson's equity increased in the AIDEA loan at 341 West Tudor, it made sense to vacate the original amendment and incorporate the debt into the existing loan.

Chair Pruhs asked if staff could provide the Board a survey of the economy around the state on a quarterly basis. Ms. Anderson noted staff has access to market information from leasing and marketing agents. She believes one of the challenges to obtaining specific market sector information from real estate agents is it is not lucrative for the agent to obtain this information, unless they are working on a particular project. Twice in the past, AIDEA has commissioned an appraiser who specializes in market research.

Mr. Lamb said different reports on the state's economy are released and staff can provide the Board with these to determine which ones meet the Board's needs. Chair Pruhs requested an overview of the economy within the state and how individual regions are trending, including identifiers and indicators for potential economical downturns.

MOTION: Vice-Chair Dick moved to approve Loan Resolution No. L15-02 Robert C. and Novella S. Larson, Robert C. Larson Revocable Trust of 2000. Motion seconded by Deputy Commissioner Burnett.

The motion was approved with members Pruhs, Dick, Burnett, Hughes, Nygard, Parady, and Wilken voting yea.

7B. Resolution No. G15-05 Approval of Federal Express Maintenance Hangar Lease

MOTION: Mr. Wilken moved to approve Resolution No. G15-05 Approval of Federal Express Maintenance Hangar Lease. Motion seconded by Vice-Chair Dick.

Mr. Lamb invited Jim Hemsath, to report on Resolution No. G15-05. Mr. Hemsath provided the Board with a summary sheet of the new triple net lease with Federal Express (FedEx), beginning on April 15, 2015. He also presented copies of the previously provided FedEx "SWOT" (strengths, weaknesses, opportunities and threats) analysis. Mr. Hemsath said this resolution authorizes AIDEA to both execute a new lease with FedEx for a requested term of eight years, with a 10-year extension, and to execute early the extension of the ground lease at the airport in 2015.

Mr. Hemsath noted the project is a fair market value lease of the facility. AIDEA has owned the project since its inception in 1992. The term for the lease was 20 years. The fees-in revenues equal \$59.4 million dollars to the end of January 2015. A detailed evaluation of the property's fair market value was conducted by an appraiser and evaluated at \$22.2 million. It is recommended the fair market value of the lease be \$138,142 per month or \$1.66 million per year for an eight-year term. This is a decrease from the current lease amount of \$238,000 per month. The current lease amount was based on FedEx paying for the cost of the project, plus 7.5% interest. As part of the new lease, AIDEA will need to refurbish some of the major systems in the building, including the boiler, heaters, hangar door, and upgrades to the fire suppression system, totaling an estimated \$3.2 million and not to exceed \$4 million.

Mr. Hemsath said FedEx brings a fair amount of business with this operation. FedEx is an anchor tenant at TSAIA for the cargo industry, ranking number five in the world in tonnage for cargo landings. Additionally, FedEx pays in excess of \$4 million a year in landing fees and approximately \$800,000 a year to the airport in ground leases. FedEx also purchases \$1.5 million of fuel a year. There are approximately 500 FedEx employees in Alaska, with about 58 workers in the hangar.

Mr. Hemsath stated it was difficult to find any true risks with the facility and FedEx. There are no indications the cargo industry will decline. Alaska is strategically located relating to the cargo industry. FedEx and the airline consortium has constructed new tankage for larger loads of jet fuel in order to stabilize the fuel costs. He noted the 20-year old building poses the future risk of major refurbishments in excess of the agreed \$4 million. AIDEA would be responsible for any building repairs to be amortized over the life of the repair at 6.5% interest and to be added to the lease cost.

Chair Pruhs asked the size of the facility. Mr. Hemsath said the building is 78,938 square feet, with an appraised value of \$1.75 per square foot of leased space.

Mr. Hemsath said public notice was given in 2013 advising the negotiations with FedEx. No comments were received. Staff recommends Resolution No. G15-05 for approval.

Acting Commissioner Parady inquired about the value AIDEA is receiving in return for allowing FedEx to have a lower cost lease and to synchronize their leases, thus yielding that leverage. Mr. Hemsath explained multiple discussions occurred with the airport regarding FedEx aligning their leases and the potential of FedEx leaving at one time. The airport is comfortable with that potential because of the business and the good location. If the new lease, based on fair market value, is extended 10 years, the price adjustment will be based on the fair market value at the time.

Acting Commissioner Parady requested more information as to why the new fair market value lease amount is lower than the existing lease amount. Mr. Hemsath explained the original lease amount FedEx has been paying was not based upon fair market value. FedEx paid for the actual cost of the project plus 7.5% interest. The capital cost has been paid for and AIDEA completely owns the facility. Moving ahead, fair market value will be charged for the lease. Mr. Hemsath stated it is not appropriate to compare what had been paid for the lease over the past 20 years versus what the lease will pay going forward.

Acting Commissioner Parady asked for the risks associated with not synchronizing the building lease term with FedEx and the land lease term with TSAIA. He noted that gap could cause a problem. Mr. Hemsath noted that the risks are minimal because he believes there is a very small probability there will not be a tenant in the building post 2023.

Chair Pruhs commented there is a formula in statute for lease renewals that considers the amount of dollars reinvested in the facility relating to a longer term lease extension. Every dollar spent in reinvestment is equivalent to a certain time extension on the lease, up to 55 years. Acting Commissioner Parady asked if the \$4 million in refurbishment should have led to a longer-term ground lease, rather than the proposed shorter-term lease. Chair Pruhs suggested the ground lease be up to a term of 50 years. Mr. Hemsath stated staff will investigate that option.

Acting Commissioner Parady requested additional information regarding the extensions solely exercised by FedEx without a reopener provision to the new lease. Mr. Hemsath stated the reopener is in Section 2D when the lease amount will be re-evaluated in eight years for the 10-year extension.

Mr. Hughes asked if there were any property taxes. Mr. Hemsath stated there are no property taxes. The state does not pay property taxes. The city does not charge property tax. This is state property and the owner of the facility is a state entity that is not liable for taxes. To date, no property tax has been assessed. Per the triple net lease agreement, if the city decided to charge property taxes, FedEx would be responsible for paying all taxes going forward.

Mr. Hughes said he remembers the city gave FedEx an initial tax holiday as an incentive because Anchorage was competing with Portland. Mr. Hemsath said he will investigate the status of the property taxes and will provide an overview.

Chair Pruhs asked if the municipality had to offer support in the form of an assembly resolution for this lease renewal. Mr. Hemsath said there was not a resolution. Per the statute, AIDEA sent the city a letter advising of the lease and the City Manager replied there were no questions or concerns. Chair Pruhs inquired if there are any other facilities owned by AIDEA that are leased out to private industry who are paying local taxes. Mr. Hemsath stated Capstone pays property tax for the Skagway Ore Terminal based on the improvement of the facility. He noted the facility in Ketchikan is under a 30-year tax holiday.

Mr. Wilken asked if the issues brought forward today rise to the level to table this resolution for additional review and to be brought back in front of the Board at the next meeting. Mr. Parady is satisfied with the answers to his concerns and believes this resolution can go forward today.

The motion was approved with members Pruhs, Dick, Burnett, Hughes, Nygard, Parady, and Wilken voting yea.

7C. Interior Energy Project Update

Mr. Lamb introduced Bob Shefchik and Mark Gardiner, who provided an overview of the Interior Energy Project. Mr. Shefchik listed the core team members and explained their specific roles. He stated the concession agreement project had a low-cost, long-term gas supply and a supply-chain design that was too expensive to bring it all the way to close. The termination of that concession agreement in January led to the ability to explore options. The main option is the Southcentral approach, which would provide a supply chain that can deliver at a lower cost for liquefaction, transportation, operations cost, and with a gas supply that is a bigger challenge in terms of cost volatility and duration.

Mr. Shefchik noted the team has been tasked to put together a supply chain that matches the community and the Interior Energy Project (“IEP”) goals, and to consider all supply options while focusing on the entirety of the supply chain and on the delivered cost. The tasks of the team efforts have been broken down based on the components of the supply chain, including the supply costs, liquefaction, transportation, storage and regas, and distribution. Each area has a team lead and these are the parts of the complete cost model to ensure the most effective use of the capital stack and AIDEA tools.

Mr. Shefchik said the process of narrowing the solicitations to two or three proposals will occur in the next month focusing on liquefied natural gas (LNG). Nonconforming alternatives will be considered at the same time. He stated the goal is a singly operated utility that takes advantage of both operational and capital efficiencies. This is the main driver behind the Pentex acquisition and the ability to combine the shared costs.

Mr. Shefchik stated the cross components include the legislative issues of House Bill 105 and Senate Bill 50. The energy efficiency legislation currently before the Legislature addresses the commercial side of conversion, but does not address the residential conversion program.

Mr. Gardiner explained there are many parallel parts going forward in the due diligence process, including moving from a letter of intent to an actual acquisition of Pentex. Negotiations are

ongoing for detailed agreements and are expected to conclude next week. Detailed legal, financial, and environmental due diligence is occurring regarding the Pentex acquisition. The financing plan, due diligence materials, valuation report, and definitive agreements are being developed and are expected to be brought before the Board at the April meeting.

Ms. Nygard expressed her appreciation to Mr. Shefchik for going to Juneau and presenting in front of the Legislature, the opportunity the state has. She asked if any legislative feedback was received, if any follow-up information has been provided to the Legislature, and what level of transparency has been given to private sector partners. Mr. Shefchik stated he had 11 individual meetings and one two-hour hearing all in the same day in Juneau. The questions and concerns he heard regarded the political fallout from the dissatisfaction with the rollout of the process and how people were informed. Mr. Shefchik assured that tenor and approach would change and he provided a follow-up email with his phone number to each of the 11 individuals he met with. The initial high level of frustration that was heard has decreased. The substantial questions now relate to how the Pentex acquisition fits into the overall IEP. There are still questions regarding gas supply, the reserves available, and possibilities.

Mr. Shefchik said the goal is for AIDEA to facilitate the IEP. The solicitation process will be looking for private partners to provide liquefaction, transportation, and possibly a full supply chain. The goal is to use AIDEA tools to finance the infrastructure portion so the capital costs are lower and the savings flow through to the end meter.

Mr. Wilken asked Mr. Gardiner if there was a tripwire date at the end of February for the MOU regarding due diligence. Mr. Gardiner stated there was a goal to have the due diligence and the definitive agreements completed by February 28, 2015. That expectation date has changed and it will be known in early March if the definitive financial business terms have been agreed upon. Mr. Wilken asked if he is correct in viewing AIDEA as being in a Kickstarter role. Mr. Shefchik stated he believes that is part of what AIDEA is doing. The underlying challenge to this project is the low demand in the early years. The Kickstarter role AIDEA is playing is to help build the demand so the IEP loan financing can be paid back. AIDEA is also helping with the pricing pressure through financing of infrastructure.

Mr. Wilken asked if there is anything AIDEA can do to help Mr. Shefchik and staff be more productive in Juneau during their next round of seven committee visits and two floor sessions. Mr. Shefchik stated the Governor's Office provides him with a cubby to sit in. Most of the legislative committee work will be completed by Gene Therriault. Mr. Shefchik noted he will mainly conduct informal lunch-and-learn appointments every two or three weeks to discuss the progression of the project and to answer questions. Mr. Shefchik stated he intends to spend time with Senator Micciche and his staff regarding the FlexSteel.

Ms. Nygard asked how this opportunity is different from what AIDEA has completed in the past. Mr. Shefchik said he believes this ownership opportunity is similar to other AIDEA assets. Mr. Lamb explained AIDEA is fulfilling its mission of being a vehicle for the state to step in and help solve a problem, while being consistent with its role of economic development, job creation,

and stabilization of the economy. Mr. Gardiner stated the other parallel is that AIDEA will not directly operate the gas utility. It will leave the structure in place that is operating now.

Chair Pruhs expressed his appreciation to Mr. Shefchik and Mr. Gardiner. He offered Board level support to both of them.

Mr. Wilken shared in the minutes of January 14, 2015, in the first paragraph of page eight, it states, "Mr. Leonard agreed with Chair Pruhs and noted a complete analysis of the IEP project is being compiled." Mr. Wilken requested Mr. Lamb inform Mr. Leonard that he looks forward to receiving the completed analysis.

Mr. Wilken stated the Board members were supplied a letter from the Alliance a couple of days ago. He does not remember the Alliance ever attending any of the AIDEA meetings over the last 15 months. Mr. Wilken asked if the Alliance has spoken to anyone present in the room requesting knowledge upon which they could write such a letter. There was no answer given in the affirmative. Mr. Wilken expressed his distress the Alliance has written this letter with very little involvement. He gave an open invitation, on the record, requesting the Alliance, Alliance leadership, or Alliance membership to call any one of the Board members to discuss and understand the current IEP status and all the work that has been completed in the effort to help the friends in Fairbanks.

Acting Commissioner Parady suggested Mr. Shefchik could be a speaker at a Resource Development Council (RDC) upcoming event. Mr. Shefchik agreed.

Ms. Nygard expressed her appreciation to Mr. Wilken for his comments. She believes it is probably one of many letters AIDEA will receive from organizations who represent the builders of Alaska and it stems from the transparent accountability the market wants the state to have. Ms. Nygard suggested AIDEA get more involved with the market and the alliances and solicit solutions from them.

8. DIRECTOR COMMENTS

Mr. Lamb noted the loan, dashboard reports, and matrix are included in the Board packet.

Mr. Lamb provided a synopsis for parts of the Callan Investment report. He advised AIDEA's mandates and direction from the Fixed Income Investment Policy Resolution No. G01-14D, or the resolution are more conservative than what its benchmarks are. Last year's returns were good at a 5% plus rate of return on the externally managed portfolio. The portfolio clearly meets the policy's criteria. Mr. Wilken asked who wrote the synopsis. Mr. Lamb said Kelli Veech and staff created the synopsis, with review by Callan.

Chair Pruhs expressed his appreciation for the preparation of the synopsis and believes it is important for the Board to understand what the funds are doing, what they are invested in, while they are not being utilized in the Alaska economy, and the relationship of those investments to AIDEA's mission. Chair Pruhs believes there will be opportunities within the next 24 months. He asked if there is a mechanism to inform the Board of the amount of dollars that must remain

in the revolving funds versus the amount of dollars that can be utilized to spur the economy and provide a return.

Mr. Lamb stated AIDEA currently has a lot of cash due to the sale at Healy, prepayments on loans and the jack-up rig, but that liquidity amount is less than the amount needed for the potential investments projects including Pentex, BlueCrest Energy, Mustang Operations Center #1 (MOC1), and Resource Energy Inc. (REI). He explained the dynamics are not simple. One of his challenges is determining how much external cash is needed in order to show stability to the marketplace.

Chair Pruhs commented it is important for the Board to be apprised at a high level in managing the risk of opportunities. Mr. Lamb said the Board's internal income statement and balance sheet were completed through December 31, and he believed the intent was to provide those to the Board. At that time, AIDEA was on target at 50% of the net budget numbers. Chair Pruhs stated the Board has not yet received those reports.

Chair Pruhs noted the next Board meeting is Thursday, March 26, 2015.

9. BOARD COMMENTS

Chair Pruhs said discussion has occurred requesting an AIDEA Board meeting in Fairbanks and one of the dates suggested is June 25, 2015 at 8:00 am. Hearing no objections, Chair Pruhs requested staff begin the process of scheduling that meeting, with members arriving the night before the meeting. Mr. Wilken recommended making the plane reservations as soon as possible. He suggested getting an early start in the morning and limiting the agenda. The Board could then use four hours in the afternoon to see pipes being put in, to go out to the storage tanks, and other results of the Board's efforts. Chair Pruhs agreed with those suggestions and asked staff to research if it is appropriate to have a reception with any groups the night before the meeting.

7D. Executive Session - Personnel Matters:

MOTION: Acting Commissioner Parady moved to go into Executive Session to discuss confidential personnel matters related to the AIDEA Executive Director. Motion seconded by Vice-Chair Dick. The motion was approved.

Board members present: Dana Pruhs, Russell Dick, Jerry Burnett, Wilson Hughes, Crystal Nygard, Fred Parady, and Gary Wilken

Invited by the board to attend the executive session to discuss confidential personnel matters: Jennifer Haldane (Human Resources Director), Jim Kubitz (Alaska Rail Road via teleconference), Jim McConnell (McConnell & Associates), and John Springsteen (Infrastructure Development Officer).

The Board entered executive session at 12:34 p.m. The Board reconvened its regular meeting at 3:39 p.m. Chair Pruhs stated no formal action was taken during executive session.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 3:39 pm.



Michael E. Lamb, Acting Executive Director/Secretary
Alaska Industrial Development and Export Authority