



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Wednesday, November 28, 2018
Anchorage, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on November 28, 2018, at 8:32 a.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present: Chair Dana Pruhs (Public Member); Joe Beedle (Public Member); Elaine Brown (Public Member); Bernie Karl (Public Member); Karl Kassel (Public Member); Deven Mitchell (Department of Revenue [DOR]). Fred Parady (Deputy Commissioner, Department of Commerce, Community, and Economic Development [DCCED]) arrived at 9:55 a.m.

3. ROLL CALL: STAFF, PUBLIC

AIDEA Staff present: John Springsteen (CEO/Executive Director); Janet Reiser (AEA Executive Director); Chris Anderson (Commercial Finance Director); Brenda Applegate (Chief Financial Officer [CFO]); Alan Weitzner (Chief Investment Officer [CIO], Project Finance & Asset Management [PFAM]); Yulia Ellsworth (Assistant CFO/Controller); Elizabeth Greer PFAM Project Manager); Michele Hope (Interim Chief Procurement Officer); Karsten Rodvik (External Affairs Officer); Linda Senn (Human Resources Manager); Gene Therriault (Interior Energy Project [IEP] Team Lead); Rich Wooten (PFAM Project Manager); Sherrie Siverson (Executive Assistant); Krin Kemppainen (Administrative Assistant); and Aimee Sudbeck (Administrative Assistant).

Public present: Mark Gardiner (Consultant, Caudaloso, LLC); Jerry Juday (Department of Law); Sunny Morrison (Accu-Type Depositions); Bikky Shrestha (BDO); and Nancy Wainwright (Public).

Public present via teleconference: Shannon Donahue (Haines); John Gaedeke (Fairbanks); and Edward Goodin Jr. (Kobuk).

4. AGENDA APPROVAL

The agenda was approved as presented.

5. PUBLIC COMMENTS

Shannon Donahue of Haines stated it has been brought to her attention Constantine Metal Resources has discussed approaching AIDEA for bonds to finance an ore moving facility for a proposed mine in the Chilkat Valley. She noted there is significant community opposition to the

mine because of the posed danger to the local resources. Ms. Donahue requested AIDEA not finance the project.

John Gaedeke, Chairman Brooks Range Council, voiced continued concern regarding AIDEA's handling of the Ambler Road Environmental Impact Statement (EIS). He stated the proposal of a road has caused stress in the region. Mr. Gaedeke talked of a number of resolutions against the road and the promises made regarding the EIS process in the villages. The villages were told the EIS would be thorough and exhaustive in exploring the cumulative effects to the land, animals, and economy. Mr. Gaedeke's current understanding is the EIS is for the road only and will not take into account any effects of the mine. He expressed concern the EIS is not addressing the impacts of the mine. He disagrees with the arbitrary page limit to the EIS. Mr. Gaedeke noted his discussions with federal agencies revealed AIDEA has not fully funded the EIS. Mr. Gaedeke hopes the \$3.6 million announced in the Governor's press release yesterday will be used to fully vet the EIS. Mr. Gaedeke stated AIDEA's communication during the meetings is this project will not cost the State any money, yet State appropriation requests continue. He feels the proposed Ambler Road is too much for AIDEA to handle. Mr. Gaedeke discussed his concern of the Mustang Project, his understanding is AIDEA is loaning money to companies it already owns.

Mr. Karl expressed appreciation for the comments and asked if Mr. Gaedeke was 100% opposed to the proposed mine. Mr. Gaedeke commented he has not focused on the mine. His concern is with the EIS process for the Ambler Road. Mr. Gaedeke stated he is not a miner and has not researched the mine proposal. He feels Red Dog Mine is well-funded, but does not see their interest in the area continuing. Mr. Karl assured he is supportive of projects that are reasonable and pass the EIS standards. Mr. Karl commented he would vote against any projects that do not pass EIS standards.

Nancy Wainwright reminded the Board that she and other members of the public have requested cost information over the last three years regarding the Ambler Road Project, the cost of the road and the cost of the EIS. Ms. Wainwright noted Mr. Davis of AIDEA responded to the cost information request with a letter in July. Ms. Wainwright stated the letter led to multiple concerns. She addressed one in her comments today. Ms. Wainwright noted the total EIS costs will be approximately \$30 million according to Mr. Davis. Ms. Wainwright provided and discussed with members a chart outlining the costs based on Mr. Davis' letter. Ms. Wainwright is disturbed by the cost of the Ambler Road EIS coming in at 10 times greater than what is normally anticipated costs for an EIS. Ms. Wainwright stated the Department of Energy reported the median cost of an EIS for their large projects was approximately \$1.7 million and the average cost is \$2.9 million. She noted that \$22 million has been spent to-date on the EIS. However, there is no delineation of how the funds were spent, including cost of studies, and cost of consultants.

Ms. Wainwright requested the Board provide the public with a breakdown of the \$22 million of EIS actual costs and expenditures, including delineation of the cost of each study and the cost of the pre-application process paid to DOWL and HDR. She believes the EIS funding is at the expense of schools, rural infrastructure, and State Trooper safety. Ms. Wainwright stated a \$2

million travel budget for State Troopers for access to rural communities was cut by the Legislature in 2018. The 2017 Anchorage School District budget resulted in a net loss of 123 full-time equivalent positions to save \$7.9 million. The entire \$30 million budget for infrastructure for the Denali Commission supports its infrastructure projects in rural areas. Ms. Wainwright believes AIDEA could have had a positive impact on rural areas with a similar budget.

Mr. Karl expressed appreciation to Ms. Wainwright for her diligence and stated her concerns will be reviewed and answers will be sought.

6. PRIOR MINUTES - September 19, 2018

The minutes of September 19, 2018 were approved as presented.

Edward Goodin Jr. of Kobuk asked if the EIS was for the Ambler Road and for the mine. He noted the Tribal Council members requested to know when AIDEA representatives will return to Kobuk to provide an update on the EIS and project. Chair Pruhs expressed appreciation for the questions. He explained the public comment agenda item is not typically used as a dialog to answer questions. Chair Pruhs requested staff respond to Mr. Goodin's questions via his provided telephone number.

7. NEW BUSINESS

7A. Executive Session: Interior Energy Project (IEP), Financial Matters, Personnel Matters

MOTION: Mr. Karl moved to go into Executive Session to discuss confidential and financial information related to IEP, financial matters, and personnel matters. Motion seconded by Ms. Brown.

The Board entered Executive session at 8:50 a.m. Participants included board members Dana Pruhs, Joe Beedle, Elaine Brown, Bernie Karl, Karl Kassel, and Deven Mitchell. Fred Parady joined at 9:55 a.m. AIDEA staff invited to join the session, at different times, for related topics: John Springsteen, Brenda Applegate, Gene Therriault, and guests, Mark Gardiner, and Jerry Juday

The Board reconvened its regular meeting at 11:10 a.m. Chair Pruhs advised the Board did not take any formal action on matters discussed while in executive session.

7B. IEP October 2018, 13th Report to the Alaska Legislature

Mr. Springsteen asked Gene Therriault to present the update. Mr. Therriault stated the October 2018 Quarterly Report to the Legislature is included in member packets and is a statutory requirement. The content of the report was primarily provided by the Interior Gas Utility (IGU). Mr. Therriault described the attachments and subject categories of the report as outlined in House Bill (HB) 105. The gas supply is under current contract from Hilcorp for a three-year term, as requested by IGU. The financing agreement with IGU is built around an extension of

the Titan liquefaction plant. The IGU Board is undergoing negotiations with Siemens to review alternatives to the planned Titan expansion. The financing is tied to the Titan expansion. Feed work has been authorized to refresh financing numbers for comparisons. The potential for rail delivery to the expanded liquefied natural gas (LNG) storage facility in south Fairbanks continues under active discussions.

Mr. Therriault stated two of the large-capacity trailers used for transportation experienced a breach in the dead space between the inner tank and outer tank. The trailers were under warranty with the manufacturer and repairs have been made. The trailers are now back in the delivery fleet. Chair Pruhs asked if the breach was a design flaw. Mr. Therriault believes it was determined to be a design flaw. However, the third trailer did not experience a breach. Mr. Karl asked if they were back in use. Mr. Therriault said yes.

Mr. Therriault continued discussion regarding the photos of the LNG expansion progress. The contractors are now working in the enclosed space. The contract is advancing on-schedule. The budget has seen one overage area due to soil problems outside of the large tank. The hope is the overage will stay within the \$2.5 million budgeted contingency carry-over. A conversion assistant position has been created and filled. The conversion assistant presented a report to the IGU Board two weeks ago highlighting potential federal programs and sources for conversion financing mechanisms.

Mr. Therriault noted the IEP initially started because of the cost of fuel. He emphasized the secondary issue focuses on being a component in the solution to the community air quality problems. Mr. Therriault stated Golden Valley Electric Association (GVEA) maintains an employee who is tasked with attending IGU meetings, even though GVEA is not the creator of the particulate air problems. Mr. Therriault understands any demand from GVEA is beneficial to the consolidated utility and higher volume relates to lower per-unit prices.

Deputy Commissioner Parady asked what the next steps will be for dealing with the Environment Protection Agency (EPA). Mr. Therriault stated he wasn't sure, but the community continues negotiations with the EPA to pursue as much latitude as possible regarding addressing the non-attainment issue. Mr. Kassel stated local control was voted out and the Borough had to step away from regulatory functions. The State Department of Environmental Conservation (DEC) took over review after the voter election results. The Borough completed their stakeholder group meetings and the information has been given to the DEC. The DEC will develop the implementation plan and send it to the EPA. The plan will not be submitted on time and EPA has provided as much latitude as possible under the current time constraints. Mr. Kassel believes the voted change is detrimental, costing millions of dollars in extra funding and slowing the process. He believes electric rates will increase as an unfortunate result.

7C. FY18 Financial Statement Presentation - presentation by BDO Auditors

Mr. Springsteen requested Brenda Applegate and Bikky Shrestha to provide the FY18 Financial Statement presentation. Mr. Shrestha summarized the provided wrap-up document for the audited financial statement. He expressed appreciation to the staff for their diligent assistance during the extensive and lengthy audit process. The audit is now complete. The object of the

audit was to obtain reasonable assertions the financial statements are free from material misstatements. BDO issued a clean and unmodified opinion on the financial statements. All records requested by BDO were available and management cooperation was excellent. Mr. Shrestha discussed the results of the audit which are included in the financial statements. The current changes to the Governmental Accounting Standards Board (GASB) rules are included in the financial statements. GASB 68 was implemented in 2015, which brought the pension portion of the Public Employees Retirement System's (PERS) liability onto the books. In FY18, GASB 75 was adopted by AIDEA for the accounting and financial reporting for the post-employment benefits. This year, the healthcare portion and other retiree medical portion of PERS' liability was brought onto the books. A restatement in the opening balance was asserted.

Mr. Shrestha noted another significant item in the financial statement was the gain from the sale of Pentex Alaska. The major significant accounting estimate remains the net pension liability and net Other Post Employment Benefit (OPEB) liability. That information is audited and provided by other auditors as part of the State of Alaska Department of Administration (DOA) processes. There were no corrected misstatements. The one uncorrected misstatement management has chosen to present differently than generally accepted accounting principles (GAAP) is the current portion of notes receivable based on what is expected. Mr. Shrestha reviewed the representation letter included.

Mr. Beedle said the financial statement reflects a healthy organization. He asked if the write-off of \$2.8 million of the North Slope pad and the entry of the \$6.7 million gain on the sale of Pentex is appropriate to relate the two items as a net positive story. Ms. Applegate stated the two items share a valid connection through the IEP. Chair Pruhs believes Pentex was a separate issue from IEP until IGU elected to purchase Pentex and then it became connected to IEP.

Mr. Beedle asked about the unsuccessful audit opinion of the Mustang investments financial statements because of the complexities of the solutions developed after the end of the fiscal year. He noted there is no current impairment on the Mustang unit and yet, the independent KPMG audit was unable to arrive at the same conclusion. Mr. Beedle requested additional clarification regarding the Mustang unit. Mr. Shrestha explained management provided a detailed analysis of the factors involved regarding the Mustang unit, which is well-communicated in the notes. Mr. Karl believes the financial statements contain an excellent explanation of the very complicated issues concerning the Mustang unit.

Mr. Mitchell commented on how the adoption of GASB 75 changed the financial statements. The two potential external actions that could affect the accounting are; 1) the discontinuance of the State's special funding situation, and 2) the discontinuance of the State's portion of the OPEB liability. Mr. Mitchell noted a new item included in the financial statement is the possibility of a 1% increase or decrease to the actuarial assumed rate of return of 8%. A 1% decrease to the assumed rate of return would change the AIDEA portion from \$9.8 million to \$12.9 million. Mr. Mitchell commented on the likely expectation the Alaska Retirement Management Board (ARMB) will consider reducing the assumed rate of return from the current 8% to possibly 7.75% or 7.5%. This would result in an additional liability created externally.

Mr. Beedle asked if the Board ever moves to accept the audit. He feels it is the Board's fiduciary responsibility. Chair Pruhs stated since he has been on the Board this hasn't been done, but if Mr. Beedle feels it needs to be done please make a motion to accept the audit.

MOTION: Mr. Beedle moved to accept the Audited Financial Report as presented and discussed today. Motion seconded by Mr. Kassel. The motion was approved without objection.

7D. Resolution No. G18-14 Declaring FY20 Dividend to the State

Mr. Springsteen stated Resolution No. G18-14 regards the dividend to be made available to the State by AIDEA of \$10,285,000, which is comprised of \$10 million from the Revolving Fund and \$285,000 from the Sustainable Energy Transmission and Supply Development (SETS) Fund. Staff recommends approval of Resolution No. G18-14.

MOTION: Mr. Beedle moved to approve Resolution No. G18-14 Declaring FY20 Dividend to the State. Motion seconded by Mr. Karl.

Mr. Springsteen stated the approval of this resolution would place the total dividends provided by AIDEA to the State at over \$400 million. Staff believes this dividend amount fulfills AIDEA's statutory requirement for a reasonable dividend, while maintaining the financial integrity of AIDEA.

Mr. Beedle asked for the percentage of income the dividend represents. Mr. Springsteen stated the dividend represents 31% of AIDEA's dividend base.

The motion was approved with members Pruhs, Beedle, Brown, Karl, Kassel, and Mitchell, voting yea.

8. DIRECTOR COMMENTS

Mr. Springsteen stated the loan, dashboard reports, IFD & PFAM project matrices, and the Callan Investment Measurement Quarterly Report were included in the board packet. Please contact Ms. Siverson for continuing education opportunities.

The next AIDEA Board meeting is scheduled for Wednesday, January 9, 2019, at AIDEA's office in Anchorage.

Chair Pruhs requested additional information regarding the \$1.6 million deficient loan as shown in the report. Mr. Springsteen stated the delinquent loan is in work-out status and discussions continue with the borrower regarding the ongoing payment and service of the loan. Mr. Springsteen said he will provide follow-up details to the Board after review with AIDEA's Commercial Finance Officer. Chair Pruhs recommended Ms. Springsteen provide the Board with a confidential memo before the next meeting that describes the specifics of the loan. Mr. Springsteen agreed.

9. BOARD COMMENTS

Mr. Karl welcomed the new Board members. He expressed appreciation to the staff for the well-presented information.

Mr. Beedle complimented management for the detailed financial reports and thorough updates presented, particularly regarding the challenged areas. He recommended using the financial reports as a tool during strategic planning. Mr. Beedle anticipates the Board orientation and strategic planning session will provide the opportunity for him to become a good Board member. He congratulated AIDEA management and staff on receiving the CDFA Distinguished Development Finance State Agency Award. Mr. Beedle looks forward to working with the new Administration.

Mr. Kassel stated he is honored to work with such distinguished and knowledgeable members. He expressed he is very impressed with the staff and the information provided for the meeting. Mr. Kassel stated he is officially retired and is determined to work as a team on what is best for the entire state of Alaska.

Mr. Mitchell expressed appreciation for being a member of the Board. He feels the new Board members are strong and he agrees with the on-point comments by Mr. Beedle and Mr. Kassel. Mr. Mitchell believes the State's private activity bond volume cap allocation has been an underutilized resource, which allows a form of tax-exempt financing for certain private business projects. He requested staff review the resource for future opportunities.

Ms. Brown welcomed new Board members and congratulated staff for their great job with the audit and receiving the CDFA award.

Chair Pruhs welcomed new Board members and noted an orientation will be planned in the near future after direction from the Administration regarding the possibility of additional new Board members. The strategic planning for the whole Board is anticipated to be scheduled before the end of the second quarter. Chair Pruhs echoed congratulations to staff on receiving the CDFA award. He extended additional congratulations for the dividend declaration. Chair Pruhs stated he looks forward to the continued work with the Board and making a difference in the state.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 12:00 p.m.



John Springsteen, CEO / Executive Director
Secretary-Treasurer
Alaska Industrial Development & Export Authority