



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Wednesday, December 4, 2019
Anchorage, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on December 4, 2019, at 1:16 p.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present: Chair Dana Pruhs (Public Member); Vice-Chair Bernie Karl (Public Member); Julie Anderson (Commissioner, Department of Commerce, Community, and Economic Development [DCCED]); Albert Fogle (Public Member); Bill Kendig (Public Member); Greg Samorajski (Deputy Commissioner, Department of Revenue [DOR]); and Julie Sande (Public Member).

3. ROLL CALL: STAFF, PUBLIC

AIDEA Staff present: Tom Boutin (CEO/Executive Director); Chris Anderson (Commercial Finance Director); Brenda Applegate (Chief Financial Officer); Mark Davis (Chief Infrastructure Development Officer); Alan Weitzner (Chief Investment Officer, Project Finance & Asset Management [PFAM]); Jen Bride (Financial Systems Analyst); Shawn Calfa (Senior Accountant); Yulia Ellsworth (Assistant CFO/Controller); Leona Hakala (Loan Officer); Geoffrey Johns (Investment Officer PFAM); Jesse Peterson (Sr. Manager PFAM); Lex Sargento (Chief Procurement and Contracting Officer); Karsten Rodvik (External Affairs Officer); Jeff San Juan (Infrastructure Development Finance Officer); Sherrie Siverson (Executive Assistant); Krin Kemppainen (Administrative Assistant); and Aimee Sudbeck (Administrative Assistant).

Public: Elwood Brehmer (Alaska Journal of Commerce); Jerry Juday (Department of Law); Stewart Osgood (DOWL); Mark Melchert, and Gary Sleeper (JDO Law); Bikky Shrestha (BDO); Jan Sieberts (Public); and John Walsh (Public).

Public present via teleconference: Dave Grossklaus (Dorsey & Whitney); Shelly Ebenal (Greater Fairbanks Community Hospital Foundation [GFCHF]); Mark Lonheim (First National Bank AK); Mike Newman (Hilltop Securities); Gary Rodrick (Foundation Health Partners); and Ken Vassar (Law Office of Kenneth E. Vassar).

4. AGENDA APPROVAL

The agenda was approved as presented.

5. PUBLIC COMMENTS

There were no public comments

6. PRIOR MINUTES - October 23, 2019

The minutes from October 23, 2019 were approved as presented.

7. NEW BUSINESS

7A. FY19 AIDEA Financial Statements - presentation

Tom Boutin requested Brenda Applegate and Bikky Shrestha provide the presentation on the FY19 AIDEA Financial Statements. Mr. Shrestha stated both the financial statements and the audit wrap-up document have been given to members. He gave a synopsis of the audit wrap-up document. Mr. Shrestha noted AIDEA's financial statements contain complicated accounting issues. He expressed appreciation to AIDEA staff for their work during the audit process.

Mr. Shrestha informed there are no new major accounting pronouncements within the statements. The significant accounting estimates within the financial statements are the net pension and the OPEB liability. The amount AIDEA contributes to the pension for PERS and OPEB is at the statutorily capped amount of 22% of gross wages, which are a combination of the contributions AIDEA has made during the year to the plan and a percentage of the State liability.

Vice-Chair Karl inquired as to the total liability amount owed for pension and OPEB. Mr. Shrestha indicated the liability, as of 2019, was shown on page 22 at approximately \$11.7 million. Chair Pruhs asked if the liability amount of \$11.7 million could be paid off directly. Mr. Shrestha explained the plan is a cost-sharing plan and that option is not available because the payment is not directly correlated to the allocated liability. The liability allocation is updated annually. Discussion continued regarding the State's cost-sharing plan and the GASB rules associated with the actuarially calculated liability.

Mr. Shrestha informed there were no corrected misstatements, but there was one uncorrected misstatement that occurs each year with AIDEA. The way AIDEA treats the current portion of the loan receivables is different from GAAP requirements. There were no issues on internal controls and no disagreements with management during the audit.

Chair Pruhs requested Ms. Applegate explain the difference between unrestricted cash and restricted cash. Ms. Applegate explained restricted cash is a cash balance whose use is restricted by a third-party document or legislation. Unrestricted cash is cash that AIDEA can decide how to spend.

Ms. Applegate stated the \$39 million in GO bonds are shown on the June 30, 2019 balance sheet, these were paid off and the defeasance occurred in October. Those bonds will not be reflected on the June 30, 2020 balance sheet. Ms. Applegate recommended the Management's Discussion and Analysis section which provides a good overview of the changes that occurred during the year. She noted Schedule 6 contains relevant information and disclosures about the development projects. Ms. Applegate reviewed the market fluctuations shown on the financial statements. She expressed appreciation to Yulia Ellsworth and staff for their diligence throughout the year in creating the 91 pages of financial statements and especially during the year-end audit process.

She noted the financial statements have increased from approximately 20 pages at the beginning of her employment to the current 91 pages, primarily due to increased GASB requirements.

Chair Pruhs requested Ms. Applegate review the operating statement of the Profit and Loss (P&L) statement as shown on page 23. Ms. Applegate gave a detailed description of each line item compared to the P&L statement of FY18. She characterized the financial year as fairly typical.

Chair Pruhs inquired as to when the payments stop on the Red Dog project. Ms. Applegate stated the final cash flow payments cease in 2041. Chair Pruhs noted additional discussion regarding cash flow will occur in tomorrow's work session. The goal is to increase the rate of return to 3% or 4% to continue to build the balance sheet as other items get paid off.

MOTION: Mr. Fogle moved to accept the FY19 AIDEA audited financial statements from BDO. Mr. Kendig seconded. The motion passed without objection.

Chair Pruhs expressed appreciation to Ms. Applegate and staff for their consistent and diligent work.

7B. Resolution No. G19-22 Approving AIDEA Revenue Bonds Series 2019A and 2019B for the Greater Fairbanks Community Hospital Foundation Project (GFCHF)

Mr. Boutin recommended approval of Resolution No. G19-22. He requested Ms. Applegate introduce the resolution and provide the presentation. Ms. Applegate stated Resolution No. G19-22 requests the Board's approval for AIDEA to issue conduit refunding revenue bonds in an amount not to exceed \$100 million for the GFCHF Project and authorizes the following documents in substantially the form included in the Board packets; authorizing an indenture by and between AIDEA and U.S. Bank National Association, as Trustee, a loan agreement between AIDEA and the borrower, a contract of purchase for the bonds, preliminary official statement, and delegation of authority to AIDEA's Executive Director and CFO to complete the transaction. The transaction is anticipated to close on December 31, 2019.

Ms. Applegate introduced representatives available via teleconference to answer any questions; Mike Newman, Hilltop Securities; Shelly Ebenal, Executive Director and general counsel of Greater Fairbanks Community Hospital Foundation; Gary Rodrick, CFO of Foundation Health Partners; Dave Grossklaus, bond counsel with Dorsey & Whitney; and Ken Vassar, bond counsel with Law Offices of Kenneth E. Vassar.

Ms. Applegate gave a detailed presentation describing Resolution No. G19-22 and the GFCHF Project. This conduit issuance is not an obligation of AIDEA or the State. The bonds are payable solely from the payments made by the borrower under the bond documents. The issuance does not require private activity bond allocation from the State of Alaska. The tax exempt bonds are at a fixed rate that has not yet been priced. Mr. Newman informed the true interest cost as of December 3, 2010 was approximately 2.51%. This issuance will provide a reduction in variable

rate risk. It will eliminate risk against the swap counterparty and will remove the bank renewal risk, while simplifying the debt structure.

Ms. Applegate explained the funds will be used to refinance existing AIDEA variable rate conduit revenue bonds, Series 2009A and Series 2009B, and to fund a debt service reserve account. The swap termination payment amount of \$9.3 million was paid today. It was not paid out of bond proceeds. Ms. Ebenal reported the variable daily interest rate today was 1.18%, but there is also a Line of Credit (LOC) fee and remarketing fee that brings the rate above 2.51%.

Ms. Applegate stated AIDEA has issued over \$1.66 billion in conduit bonds, not including refunding bonds. Approximately 68% of the conduit revenue bonds have been issued in the healthcare industry. AIDEA receives a one-time issuance fee for conduit bonds based on monetary threshold. Ms. Applegate will provide the Board members with the specific issuance fee amount for these conduit bonds.

MOTION: Mr. Kendig moved to approve Resolution No. G19-22 Approving AIDEA Revenue Bonds Series 2019A and 2019B for the Greater Fairbanks Community Hospital Foundation Project. Motion seconded by Deputy Commissioner Samorajski.

Chair Pruhs complemented GFCHF for being proactive in their debt and risk management. He believes the community will benefit from this in years to come.

Vice-Chair Karl believes Fairbanks, for its population size, has the best hospital in the world.

The motion was approved with members Pruhs, Karl, Anderson, Fogle, Kendig, Samorajski, and Sande voting yea.

7C. Loan Resolution No. L19-12 Island Holdings LLC

Mr. Boutin explained staff is in favor of this loan resolution. He requested Chris Anderson, present on Loan Resolution No. L19-12. Ms. Anderson explained Loan Resolution No. L19-12 is a participation request from FNBA for Island Holdings, LLC. AIDEA's participating interest is \$6,497,190 for a 25-year term at a fixed rate of 3.82%. The guarantors are Susan Johnson and Daniel Gilbert. This is an equity extraction from the Best Western in Kodiak to build a new proximate 38-room hotel, Kodiak Compass Suites. Ten new jobs will be created with this new construction.

Ms. Anderson explained AIDEA would take a first deed of trust on the property. It was appraised by North Pacific Advisors at \$10,260,000 for the real estate and furniture, fixtures, and equipment (FF&E), which gives a 72% loan-to-value. The debt service coverage is 1.98:1. There are no known environmental issues. The market has rebounded in the past several years and is forecast to remain steady, as long as the Alaska and national economies remain strong. The strengths in this credit include professional management with a good operating history, a 72% loan-to-value, and it is a flagged hotel in a good downtown location. The weaknesses only include typical market risk.

Ms. Anderson noted the percentage of AIDEA's total portfolio dollars statewide, as of September 30, 2019, in the Gulf Region would increase from 4.35% to 5.8%. AIDEA has 12% of its total statewide portfolio in the tourism industry and would increase to 13.34%. For participated loans within the Gulf Region, 55.1% is attributable to tourism, consisting of three financed hotels. This loan would increase the penetration of the tourism industry to 66.9%.

Chair Pruhs inquired if a Phase I environmental assessment was conducted on this property. Mark Lonheim Loan Officer in Kodiak, stated he will research and confirm if one was completed. Ms. Anderson stated she will follow-up on the environmental assessment. Chair Pruhs recommended the environmental assessment is completed prior to closing.

Chair Pruhs asked what percentage of the overall portfolio is in tourism. Ms. Anderson estimated about 10% of the portfolio is allocated to hotels, including the Marriott commitment that expires December 30, 2019. Chair Pruhs asked if staff has a policy indicating portfolio industry percentage allocation guidelines and if that would be a good idea. Mr. Boutin stated staff does not have such a policy and does not believe it would be a good idea. He said the enabling AIDEA statutes do not contain a cap on the number of deals conducted in any industry. Chair Pruhs suggested staff review creating a risk management policy that indicates a percentage of the portfolio's investment in one particular industry. As a matter of good business practice, once the level is reached, additional due diligence could be performed to mitigate investment concentration risk.

Ms. Sande requested additional information regarding the analysis of the income statements. Ms. Anderson noted the guarantors have been historically profitable until last year and detailed information can be discussed during executive session.

MOTION: Mr. Fogle moved to enter into Executive Session to discuss confidential information related to Loan Resolution No. L19-12 Island Holdings LLC. Motion seconded by Mr. Kendig.

The Board entered Executive Session at 2:16 p.m. Participants included board members Dana Pruhs, Bernie Karl, Julie Anderson, Albert Fogle, Bill Kendig, Greg Samorajski, and Julie Sande. AIDEA staff and guest invited to join the session: Tom Boutin, Chris Anderson, Leona Hakala, and Jerry Juday.

The Board reconvened its regular meeting at 2:25 p.m. Chair Pruhs advised the Board did not take any formal action on matters discussed while in executive session.

MOTION: Mr. Fogle moved to postpone a decision on Loan Resolution No. L19-12 Island Holding LLC until the January 2020 meeting. Motion seconded by Ms. Sande. The motion was approved without objection.

7D. Executive Session: Discuss confidential financial information related to FY21 AIDEA Dividend to the State, SETS loan, Navision Upgrade, Mustang Development Project, and Copper River Seafoods

MOTION: Deputy Commissioner Samorajski moved to enter into Executive Session to discuss confidential information related to FY21 AIDEA Dividend to the State, SETS loan, Navision Upgrade, Mustang Development Project, and Copper River Seafoods. Motion seconded by Mr. Fogle.

The Board entered Executive Session at 2:27 p.m. Participants included board members Dana Pruhs, Bernie Karl, Julie Anderson, Albert Fogle, Bill Kendig, Greg Samorajski, and Julie Sande. AIDEA staff and guest invited to join the session at different times for related topics: Tom Boutin, Chris Anderson, Brenda Applegate, Jen Bride, Terence Cato, Mark Davis, Geoff Johns, Alan Weitzner, Jerry Juday, Mark Melchert, and Gary Sleeper.

The Board reconvened its regular meeting at 5:14 p.m. Chair Pruhs advised the Board did not take any formal action on matters discussed while in executive session. Chair Pruhs apologized for the lengthy executive session.

7E. Resolution No. G19-25 Approving a Loan from the SETS Fund to IGU

Mr. Boutin stated Resolution No. G19-25 is an additional \$4 million loan from SETS to IGU. The structure is identical to the previous \$10 million SETS loan to IGU earlier this year.

MOTION: Mr. Kendig moved to approve Resolution No. G19-25 Approving a Loan from the SETS fund to IGU. Motion seconded by Mr. Fogle.

The motion was approved with members Pruhs, Karl, Anderson, Fogle, Kendig, Samorajski, and Sande voting yea.

7F. Resolution No. G19-23 Declaring a Dividend to the State for FY21

Mr. Boutin stated Resolution No. G19-23 follows the same format the Board has utilized each year to declare a dividend to the State. Mr. Boutin requested Ms. Applegate provide additional information. Ms. Applegate explained Resolution No. G19-23 provides for the Board determination of the FY21 dividend to the State of Alaska. Pursuant to AS 44.88.088, staff recommends a 50% dividend from the Revolving Fund in the amount of \$13,950,000, and a 50% dividend from the SETS Fund in the amount of \$525,000. There is a two-year lag and the current dividend is based on the FY19 results. Ms. Applegate reported AIDEA has paid or declared \$407.9 million in dividends to-date.

MOTION: Mr. Kendig moved to approve Resolution No. G19-23, Declaring a Dividend to the State for FY21, recommending the fiscal year 2021 dividends total \$14,475,000, comprised of \$13,950,000 from the Revolving Fund and \$525,000 from the SETS Fund. Motion seconded by Mr. Fogle.

Vice-Chair Karl believes the resolution has been well vetted and follows statute. Payment of the maximum amount was suggested by the Executive Director. He is in favor of the resolution and believes the State will be happy to receive the maximum allowable by statute.

Mr. Fogle expressed support for the resolution and commented that 17 times out of 24 times, the 50% dividend level was paid to the State.

Chair Pruhs commented he is proud that the dividends AIDEA has paid since 1995 have exceeded the amount the State has contributed to AIDEA. He is proud of staff's diligent work. Chair Pruhs believes the common goal is to build the balance sheet to provide more opportunities in the State of Alaska. He expressed appreciation to staff.

The motion was approved with members Pruhs, Karl, Anderson, Fogle, Kendig, Samorajski, and Sande voting yea.

7G. Resolution No. G19-24 Annual FY21 Operating Budget Submission to OMB

Mr. Boutin explained Resolution No. G19-24 establishes the Board's review of the annual operating budget before it is submitted to OMB. He emphasized the importance of the Board's engagement in the operating budget process. Mr. Boutin reminded the Board of the stark reality of the two-notch downgrade. The cost of the downgrade to the people of the State of Alaska is serious. He recommends the approval of Resolution No. G19-24.

MOTION: Mr. Kendig moved to approve Resolution No. G19-24 Annual FY21 Operating Budget Submission to OMB. Motion seconded by Mr. Fogle.

Vice-Chair Karl expressed support for the resolution. He believes the Board has a duty to review the budget. He expressed appreciation to Mr. Boutin for following the wishes of the Board in creating the resolution.

The motion was approved with members Pruhs, Karl, Anderson, Fogle, Kendig, Samorajski, and Sande voting yea.

7H. Resolution No. G17-19A Approving a Navision System Upgrade with Server Upgrade

Mr. Boutin informed Resolution No. G17-19A is the same Navision System upgrade presented at previous Board meetings. The new amendment request amount is \$240,000. He recommends the approval of the resolution. He believes all questions have been answered.

Chair Pruhs noted the total upgrade project costs are \$340,000, of which \$100,000 was previously approved. The additional amount requested today is \$240,000. Chair Pruhs asked for the timeline to complete the project. Mr. Boutin believes it will take a maximum of eight months to complete the upgrade.

Chair Pruhs requested the Board be provided a project status update at every Board meeting until completion. Mr. Boutin agreed. Chair Pruhs inquired as to the confidence in the security during the transition time. Mr. Boutin expressed confidence in the people and in the process. He noted a risk-free scenario does not exist. Chair Pruhs asked if Mr. Boutin believes \$340,000 is sufficient to complete the project. Mr. Boutin agreed.

MOTION: Mr. Kendig to approve Resolution No. G17-19A Approving a Navision System Upgrade with Server Upgrade. Motion seconded by Deputy Commissioner Samorajski.

It was brought to the attention of the Chair the copy of Resolution No. G17-19A contained in the Board packet has the incorrect number of \$240,000 in the final Whereas and the incorrect number of \$240,000 in Section 2.

MOTION: Mr. Kendig moved to amend Resolution No. G17-19A by replacing the \$240,000 with \$340,000 in Section 2., and replacing the \$240,000 with \$340,000 in the last Whereas sentence. Motion seconded by Deputy Commissioner Samorajski. The amendment passed unanimously.

The amended motion to Resolution No. G17-19A was approved with members Pruhs, Karl, Anderson, Fogle, Kendig, Samorajski, and Sande voting yea.

8. DIRECTOR COMMENTS

Mr. Boutin noted the dashboard and loan reports are included on the agenda for tomorrow's work session. He stated any projects that were not addressed in today's meeting will be included in tomorrow's work session agenda. The quarterly Callan report was included in the Board packet.

The next regularly scheduled AIDEA Board meeting is Wednesday, January 15, 2020.

9. BOARD COMMENTS

Mr. Kendig expressed appreciation to Mr. Boutin and staff for their noticeable dedication and diligent efforts in support of AIDEA's mission.

Mr. Fogle expressed appreciation to the staff for preparing the documentation for the Board's discussion, which has created a good path forward.

Vice-Chair Karl believes there were no simple solutions, but only intelligent choices made today. He expressed recognition and appreciation for the work the staff conducts and the leadership exhibited.

Agreements to the previous comments were echoed by all Board members.

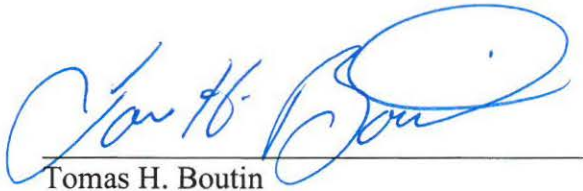
Chair Pruhs noticed there was no Recorder present at today's meeting. Krin Kemppainen stated the audio recording will be provided to Accu-Type for transcription. Chair Pruhs expressed

appreciation to Mr. Boutin for his due diligence and focus on AIDEA's daily challenges, and appreciation to Ms. Applegate for her focus on AIDEA's financial issues.

Chair Pruhs welcomed the new employee Jesse Peterson, Sr. Manager, Project Finance and Asset Management.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 5:33 p.m.



Tomas H. Boutin
Executive Director, Secretary
Alaska Industrial Development & Export Authority