



## MEMORANDUM

**To:** Board Members  
Alaska Industrial Development and Export Authority (AIDEA)

**From:** Tom Boutin  
Executive Director

**Date:** May 9, 2019

**Subject:** Development Project Finance Loan – Duck Point Development II LLC (DPDII)  
Resolution No. G19-14

### PROJECT DEVELOPMENT

Duck Point Development II LLC (DPDII), a wholly-owned subsidiary of Huna Totem Corporation (HTC), has applied to AIDEA for development project financing under AS 44.88.172 to expand cruise ship facilities at Icy Strait Point (ISP), referred to as Phase 2. In December 2018, Norwegian Cruise Line Holdings Ltd. announced a long-term partnership with HTC to develop a second cruise pier at ISP.

Phase 2 includes a new 500-foot floating dock will be constructed and located roughly one-half mile north of the existing ISP dock. Uplands development to support the new dock will include a 3,500 sq. ft. welcome center (with about 1,300 sq. ft. of retail space, lobby, and bathrooms), a 600-sq. ft. tour sales booth with a covered waiting area, two tour assembly buildings of 1,600 sq. ft. each, and a tram and bus loop. A small vessel dock will be located near the ship side of the trestle. Total site area is about 3.7 acres (roughly three times larger than the uplands at ISP's initial development).



A new road entering the site from the main road near the ISP gate will allow tour vehicles to access the new complex and pick up passengers at a bus and tram turnaround loop adjacent to the tour assembly buildings. The existing tram road has already been widened and will allow easy passenger pickup and drop-off. The original tram trail continues for nearly one mile past the new trestle to Point Sophia. Approximately 1,800 feet of new beach trail will connect the new site.

### SUMMARY OF LOAN TERMS

DPDII requests AIDEA to provide up to \$15 million in development project financing to complete the construction of the ISP Phase 2 uplands development. AIDEA’s loan facility is composed of a \$9 million construction/term loan for the current committed development and up to \$6 million in expansion capital funding for future planned development under Phase 2.

Summary of Terms	
Borrower	Duck Point Development II LLC
Guarantors	Icy Strait Point LLC, Huna Totem Corporation
Loan Amount	\$15 million, composed of: <ol style="list-style-type: none"> <li>1. a \$9 million construction/term loan</li> <li>2. a \$6 million Expansion Capital Fund (available for 3 years post-close)</li> </ol>
Term	Maximum 18 years ending December 31, 2037 – inclusive of a 12 month Commitment Period available for monthly construction drawdown for the initial loan and use of the Expansion Capital Fund.
Rate	20 year US Treasury rate + 350 bp [3 AAC 99.575] Rate is fixed on date of Financial Close
Payment	Quarterly Interest Only during the Commitment Period (construction) Principal and Interest during the Term Period based on a sculpted amortization schedule
Use of Proceeds	The Loan Amount will be used to fund costs in relation to the design, development, financing, construction and completion of the Phase II development of Icy Strait Point. Per 3 AAC 99.580, the Loan Amount may not exceed 75% of the estimated Phase 2 Project Costs (\$37,830,000).  Initial loan to projects costs: 23.8%
Security	<ol style="list-style-type: none"> <li>1. 1st priority lien on all assets, including revenues, of the Borrower;</li> <li>2. 1st priority liens on all assets of the Guarantors used in the development, operation, maintenance or management of the property used for Phase II of the project, with the exception of ANSCA property owned by HTC;</li> </ol>

	<ol style="list-style-type: none"> <li>3. Assignment by HTC of all interests held in the Borrower, including economic, information and governance rights;</li> <li>4. Assignment of the Project Contracts and Borrower’s rights under the agreements, and including rights to notice and opportunity to cure;</li> <li>5. Negative pledge over all of the Borrower’s assets;</li> <li>6. All proceeds of the foregoing, and all additions, replacements and substitutions; and</li> <li>7. Major Maintenance Reserve and Debt Service Reserve (subject to funding and release provisions)</li> </ol>
Fees	<ol style="list-style-type: none"> <li>1. Application Fee: \$11,000 [3 AAC 99.590(a)]</li> <li>2. Commitment Fee: 1% less #1 above (\$139,000) [3 AAC 99.590(c)]</li> <li>3. Closing costs incurred</li> </ol>

**ECONOMIC DEVELOPMENT/JOB CREATION**

The direct impact of the expansion is the creation of 60 new seasonal jobs at ISP. The new dock and uplands development will fill 45 jobs during the construction period.

The project’s total development cost is budgeted at \$37.8 million. McDowell Group, an Alaska research and consulting firm, provided a financial feasibility analysis including the economic impact of constructing and operating this new facility. The McDowell Group determined that ISP operations have a significant economic impact on the local economy. ISP will employ about 180 staff in 2019, including an estimated 145 Hoonah residents (a significant percentage of the 800 community members). Employment will increase to about 220 positions in 2020.

HTC estimates local payroll at \$2.1 million in 2019 and \$2.3 million in 2020 with local ISP expenditures for goods and services at \$1.3 million in 2019 and \$1.9 million in 2020. The City of Hoonah will generate sales tax revenues of approximately \$990,000 in 2019 and \$1.5 million in 2020, and cruise passenger excise tax revenue for the municipality is estimated at \$1.2 million in 2019 and \$1.8 million in 2020. The City Manager estimates that 40 percent of sales tax revenues are currently generated by ISP, potentially growing to 60 percent in 2020.

The City of Hoonah has provided a letter of support dated May 2, 2019 stating the “Construction of the new pier and uplands facilities including Welcome Center, Tour Sales facility, and Tour Dispatch center, are critical to supporting the continued growth of the industry at ISP, and will lead to additional economic opportunities for Hoonah.”

**APPLICANT INFORMATION**

AIDEA’s borrower, DPDII, is a special purpose limited liability company that is wholly-owned by HTC. The loan will be guaranteed by ISP and HTC.

Icy Strait Point LLC (ISP) is a wholly-owned subsidiary of HTC and operator of the Icy Strait Point cruise ship destination facilities. ISP is Alaska’s only privately owned cruise ship destination, located 35 miles west of Juneau in Hoonah, Alaska. ISP caters to cruise ship guests and offers a unique port for those traveling with, Royal Caribbean, Celebrity, Norwegian Cruise Lines, Holland America, Princess, Oceania, and Regent Seven Seas cruise lines. Opening in 2004 with 32 cruise ship visits, ISP will see 138 cruise ship visits in 2019 with a projected passenger count of 267,000. This is scheduled to increase to over 400,000

guests in 2020, ranking ISP as the 4<sup>th</sup> most visited port in Alaska. To date, HTC has invested over \$65 million in ISP.

Huna Totem Corporation (HTC) is an Alaska Native Corporation formed under the terms of the Alaska Native Claims Settlement Act (ANCSA) enacted by Congress in 1971. HTC was incorporated November 9, 1973. Under ANCSA, HTC received a cash distribution, in addition to 23,043 acres of land, the final transfer of land occurred in July 2013. HTC is currently owned by over 1,400 shareholders whose aboriginal ties are to the Village of Hoonah in Southeast Alaska. HTC is governed by nine board members who serve three-year terms. Each year, three directors are up for election by the shareholders.

HTC Management		
Chief Executive Officer	Russell Dick	Since October 2016. Formerly CEO of Alaska Dream Cruises and Haa Aani LLC. Former Vice Chairman of AIDEA.
Chief Financial Officer	Glory Scarano	Since January 2018. Treasurer/VP of Finance with HTC since March 2012. Formerly an accountant at the Alaska Permanent Fund Corporation.
VP of Operations, ISP	Tyler Hickman	Since February 2007. Formerly with Royal Caribbean Cruises for 14 years.

Specific confidential financial information will be provided to Board members under separate cover.

#### FINANCE PLAN

AIDEA has prepared a finance plan for the requested development project financing as represented by the summary of terms presented above. In accordance with AS 44.88.173, AIDEA confirms the following:

AS 44.88.173	CRITERIA	DESCRIPTION
(a)	The finance plan must include an estimate of the total project cost	\$37,830,000 (to be finalized at financial close)
(a)	A description of the sources of money that will be used to finance the total cost of the project	At financial close, \$9 million will be available from AIDEA and \$28,830,000 will be available to the Borrower through funding agreements arranged by ISP and HTC  An additional \$6 million will be available from AIDEA over the next 3 years for future expansion projects related to Phase 2
(a)	An estimate of the operational costs of the completed project and source of money that is to be used to pay operating costs	Operating costs are estimated to be \$60,000 to \$65,000 per year in the initial 5 years. All operating and maintenance costs for the Phase 2 development will be directly incurred by Icy Strait Point LLC under an operations and maintenance agreement with the Borrower
(b)	The Authority shall give preference to a project that does not require financial assistance from the state	No financial assistance from the State will be required for the project

## **RELATED DEBT**

AIDEA has an existing exposure of \$18,881,050.16 under the Loan Participation Program with Northrim Bank for X'anu Kaawu Annee (a wholly owned subsidiary of HTC) maturing 10/2041. This term loan, originally 25 years, was approved in March 2015 for the construction of ISP's first floating dock, capital improvements at ISP, and to refinance existing debt.

## **RISK MITIGATION & MANAGEMENT**

The primary repayment source for a construction/term loan issued under AIDEA's new facility is by the borrower (DPDII) and its guarantors (ISP and HTC) through fulfillment of contracts for passenger fees using the new dock including its partnership with Norwegian Cruise Lines, as well as other revenues available to DPDII. Structurally, AIDEA's new development project finance facility is supported by the following conditions:

1. Assignment of the Project Contracts and DPDII's rights under the agreements, including rights to notice and opportunity to cure;
2. Requirement that all drawdowns are supported by revenue and cashflow reflecting a minimum 1.40x DSCR through a maximum term of December 31, 2037;
3. Financial covenant restricting distributions from DPDII should the DSCR fall below 1.25x or any default existing under the loan agreement;
4. Minimum 6 months Debt Service Reserve and a Major Maintenance Reserve (subject to funding and release conditions); and
5. Quarterly financial reporting and monthly construction management/operating reports.

Secondarily, we are looking at the value of the Phase II collateral package including the following:

1. A 1<sup>st</sup> priority lien on all revenues and assets, including the new dock, of DPDII;
2. A 1<sup>st</sup> priority lien on all assets of the Guarantors (ISP, HTC) used in Phase II of the project (with the exclusion of ANSCA property);
3. Assignment of all HTC's interests in DPDII; and
4. Negative pledge by DPDII over all assets.

Funding during the one year construction period will be managed with monthly drawdown requests supported by monthly progress reports with invoicing prepared by DPDII. Amounts outstanding after the one year construction period will be converted to an amortizing term loan with maximum maturity of December 31, 2037. Principal payments will be sculpted to proportionally match the satisfactorily committed revenue received by DPDII.

Operating Risks	Mitigation
One or more cruise lines could reduce scheduled stops at ISP	<p>ISP has been in operation receiving cruise ship passengers since 2004. Passenger volumes have increased steadily from 2013 through 2018. The addition of the new facilities expands this growth and provides more balance to the existing mix of cruise ship operators.</p> <p>A Low-Case Scenario evaluation (effectively losing 25% passenger volume) reflected the ability of HTC to continue meeting its debt obligations.</p> <p>This was viewed to be a reasonable low case scenario given that large ship itineraries require a minimum of three port calls and ISP’s strategic positioning for an Alaskan itinerary (25 miles from Glacier Bay)</p>
Existing cruise ship facilities, dining and excursion program availability become constrained	ISP is unique in having developable land and motivated partners. HTC owns 23 acres at ISP and 23,000 acres of developable land in the Hoonah area
New, larger vessels in the Alaska market - increasing number of vessels in the 1,000-foot range	ISP2 can accommodate the largest vessels in the Alaska market
Cruise ship guest satisfaction declines	<p>ISP offers a unique experience as the only Alaskan cruise destination operated by an Alaska Native Corporation</p> <p>ISP reports that 98% of guests respond that they recommend the destination. ISP and community investment in tour capacity and uplands development help ensure guest satisfaction</p>

**RECOMMENDATION**

AIDEA staff recommends approval of this new development project financing under AS 44.88.172 and to provide AIDEA’s Executive Director with the authority to execute satisfactory loan documentation with the Borrower within the terms summarized in this memorandum.

Attachments:

1. Evaluation Criteria (p.7-8)
2. City of Hoonah Letter of Support dated May 2, 2019
3. 3 Year Local Economic Impact
4. Phase 2 Development – Project Contract Diagram

## EVALUATION CRITERIA

AIDEA staff confirms HTC’s loan application and the resulting financing plan meet the requirements of the evaluation standards established for a development project financing under AS 44.88.172:

CODE CITATION [3 AAC 99.560]	CRITERIA	DESCRIPTION
(a)(1)	Whether the application requirements of this chapter have been met	The application and subsequent materials provided by Huna Totem Corporation (HTC) and Duck Point Development II LLC (DPDII) or required to be provided by consultants engaged by AIDEA at the expense of HTC and DPDII meet all the code requirements in 3 AAC 99.500-599.
(a)(2)	The project applicant's credit standing	HTC, as Guarantor, has provided its consolidated audited annual financial statements for the past 3 years. Applicant is a newly established, wholly owned subsidiary of HTC.
(a)(3)	The economic and financial viability of the proposed development project	HTC and DPDII provided supporting project agreements and financial forecasts for the applied loan. Additionally, AIDEA engaged an external consultant to complete a financial feasibility analysis of the proposed project.
(a)(4)	The impact of the proposed development project on the authority's portfolio of development projects, considering the concentration by industry area, technology, and geographic region and the concentration of financing provided to a single borrower and related obligors with respect to all of the authority's financing programs	With this new debt facility, AIDEA’s exposure to HTC related companies will increase from \$18.9 million under the Loan Participation Program to \$33.9 million. This is the first tourism industry sector investment, representing 3% of AIDEA’s total invested capital in AS 44.88.172 projects. Projects in the South East region represent 25% of the total AS 44.88.172 portfolio – increasing to 27% with this new facility.
(a)(5)	Whether and the extent to which the development project financing is consistent with the fulfillment of the authority's purposes under AS 44.88.070 , including the number of temporary and permanent jobs created by the proposed development project	ISP operations have a significant economic impact on the local economy. ISP will employ about 180 total staff in 2019, including an estimated 145 Hoonah residents (a significant percentage of the 800 community members). Employment will increase to about 220 positions in 2020 due to the project expansion. The City Manager estimates that 40% of sales tax revenues are currently generated by ISP, potentially growing to 60% in 2020.
(a)(6)	The interests of local governments impacted by the proposed development project	Dennis Gray Jr., City Manager for the City of Hoonah, has provided a letter of support dated May 2, 2019 stating the City of Hoonah’s “full support of this request and project.”
(a)(7)	Any other commercially reasonable underwriting criteria the authority, in its discretion, determines to be pertinent to the application, given the terms of the financing or the nature of the project applicant or the proposed development project	As customary for project loans of this nature

CODE CITATION [3 AAC 99.560]	CRITERIA	DESCRIPTION
(b)	In evaluating an application for development project financing, the authority may utilize experts, professionals, counsel, or consultants the authority determines will be of assistance to the evaluation.	AIDEA engaged external consultants to review (i) the financial feasibility of ISP and the project expansion, (ii) review of the permitting, environmental, basis of design and preliminary construction documents for the new dock and uplands development, and (iii) project agreements, security agreements and legal documentation.



**ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY**

**RESOLUTION NO. G19-14**

**RESOLUTION OF THE ALASKA INDUSTRIAL DEVELOPMENT  
AND EXPORT AUTHORITY APPROVING DEVELOPMENT  
PROJECT FINANCING FOR DUCK POINT DEVELOPMENT II  
LLC (ICY STRAIT POINT PHASE 2)**

**WHEREAS**, Duck Point Development II LLC (DPDII), a wholly owned subsidiary of Huna Totem Corporation, is proposing to develop a second cruise ship dock and associated upland improvements (the "Project") at Icy Strait Point near Hoonah, Alaska;

**WHEREAS**, DPDII has applied to the Alaska Industrial Development and Export Authority (the "Authority") for a loan to fund a portion of the Project;

**WHEREAS**, the total estimated cost of the Project is \$37.8 million and DPDII is requesting the Authority provide up to \$15 million of the required financing for the Project;

**WHEREAS**, the Authority's loan to DPDII would be on terms and conditions as set out in the memorandum that staff has provided to the Board;

**WHEREAS**, the staff of the Authority has completed due diligence of the Project and the proposed loan and the staff has prepared a finance plan for the Project that has been furnished to the Board;

**WHEREAS**, the Investment Committee of the Authority evaluated the Project and the proposed loan pursuant to the Authority's regulations and the Investment Committee recommended that the Authority proceed with providing loan for the Project;

**WHEREAS**, the loan to DPDII for the Project qualifies as "development project financing" under the Authority's governing statutes (AS 44.88.172) because the Project meets the

definition of a “development project” under AS 44.88.900(6) and (13)(E) in that it will be infrastructure for the expansion of a tourism destination facility;

**WHEREAS**, the Authority has solicited the review and advice of the local government where the Project is situated and the City of Hoonah has informed the Authority that it is supportive of the Project; and

**WHEREAS**, the Project is a suitable one for the Authority to assist in financing and is in furtherance of the Authority’s statutory purpose of promoting, developing and advancing the general prosperity and economic welfare of the people of Alaska, to relieve problems of unemployment, and to create additional employment.

**NOW, THEREFORE, BE IT RESOLVED BY THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY AS FOLLOWS:**

Section 1. The Authority is authorized to provide a loan of up to \$15 million to DPDII as development project financing for the Project. The finance plan for the Project submitted to the Board is approved.

Section 2. The Executive Director of the Authority is authorized to complete the negotiations on all the agreements related to the Authority providing the loan to DPDII. The final loan documents shall be on the same terms outlined in the confidential Term Sheet provided to the Board, or with non-material modifications to those terms as the Executive Director, in his discretion, determines to be appropriate.

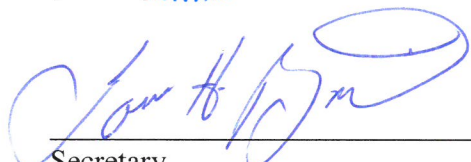
Section 3. The Executive Director is authorized to execute the final agreements and other loan documents regarding the Authority providing development project financing to DPDII for the Project. The Executive Director may expend up to \$15 million from the Economic

Development Account of the Authority's Revolving Fund to provide the development project financing for the Project in accordance with the final agreements. The Executive Director is further authorized to take all other steps that are necessary or desirable to provide the development project financing for the Project and to perform the Authority's obligations under the final agreements.

Dated at Anchorage, Alaska, this 22<sup>nd</sup> day of May 2019.



  
Chair

  
Secretary