



MEMORANDUM

To: Board Members
Alaska Industrial Development and Export Authority

From: Tom Boutin
CEO/Executive Director

Date: June 26, 2019

Subject: Alaska Ship Home-porting for Improvements Program (“AK SHIP”)
Resolution No. G19-15

AIDEA staff is proposing a new financing program with the purpose to enhance the competitiveness of Alaskan shipyards through the offer of short term and bridge financing for repair, conversion and maintenance work, all to be undertaken directly or through subcontract, at Alaskan shipyards. The proposed financing program is targeted to meet the seasonal financing needs of Alaska’s industrial and commercial fleet owners and to facilitate scheduled maintenance cycle work at Alaska’s shipyards.

AIDEA MISSION

Under AS 44.88.172(a), AIDEA is entitled to expend money from the economic development account to finance, acquire, manage and operate development projects that the Authority intends to own and operate or to provide development project financing, all for projects defined under AS 44.88.900(13)(A).

Under these statutes, AIDEA staff requests to establish a maximum \$10 million revolving fund program from the economic development account to provide 6 month to 24 four month financing exclusively for ship repair work in support of Alaska’s shipyards. Economic and development benefits for Alaska include:

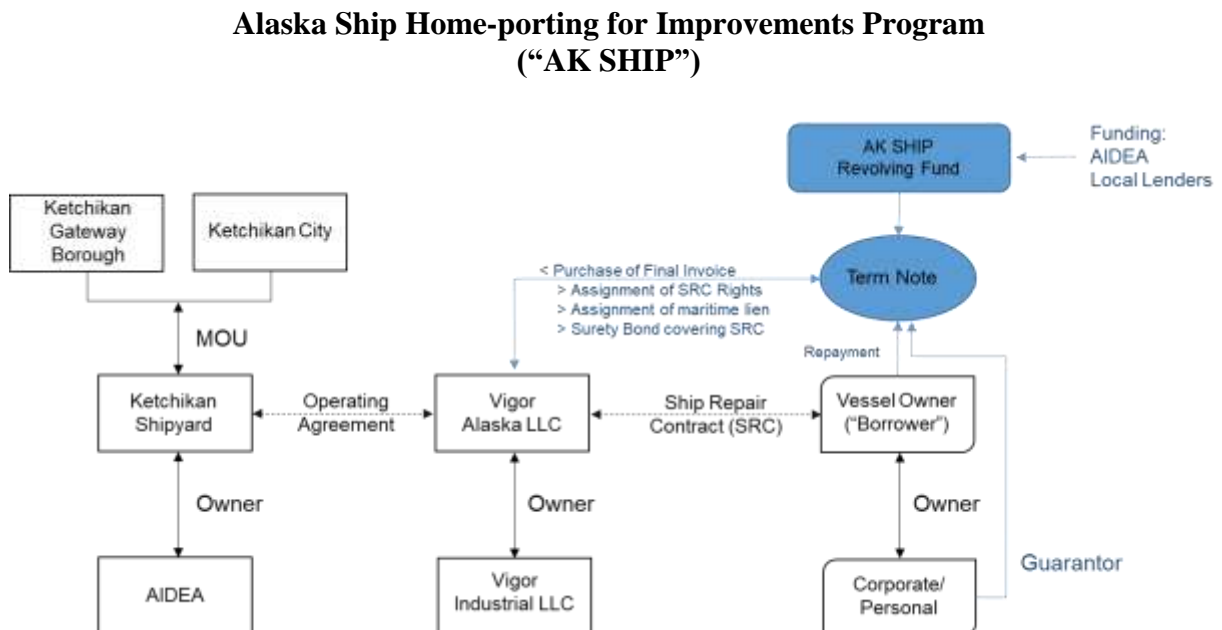
- Enhancing the competitiveness of Alaska’s shipyards;
- Reducing costs for Alaska based commercial fleet operators;
- Provide dedicated financing for the seasonal requirements of Alaska’s industrial and commercial maritime sector; and
- Retention of a skilled workforce in Alaska’s shipyards;

AIDEA is the owner of the Ketchikan Shipyard which is an asset held within the economic development account under AS 44.88.172. Vigor Alaska LLC is the contracted operator of the shipyard, providing ship repair, maintenance and overhaul services. Based on the Authority’s statutes, the Ketchikan Shipyard is an eligible shipyard under AK SHIP and would have access to this financing program for vessel owners using the shipyard.

AIDEA staff anticipates that other Alaska shipyards may have an interest in this financing program and we will work with those shipyards for eligibility into the program, subject to fulfilling AIDEA's statutes under AS 44.88.172 and subsequent amendment of the proposed resolution.

FACILITY STRUCTURE

The facility is proposed as a three-year revolving fund for the maximum amount of \$10 million. Individual fixed or variable-rate notes will be issued under the facility to acquire the final invoice of Ship Repair Contracts (SRC) between qualified Borrowers (the Vessel Owners) and the shipyard operator. The SRC is a detailed contract defining the vessel, the scope of work, terms of payment, warranties, obligations at completion, and limitations of liability. For the Ketchikan Shipyard, the program has the following structure:



SRCs typically fall into the range of \$150,000 to \$1.5 million depending on the size of the vessel and the extent of work required in the maintenance cycle. Conversions and re-powerings for smaller vessels also fall within this range. Therefore, the range of funding per note has been set at a minimum of \$150,000 and a maximum advance of \$1,500,000.

An important structural feature of the proposed facility is that a term note funding under the facility is made only once per SRC. The funds are paid directly to shipyard Operator (Vigor Alaska) and solely utilized to purchase the final invoice under the SRC with an assignment of Operator's rights of payment under the SRC. A condition precedent to the funding is that the Borrower and Operator certify that the final invoice is free and clear of any duties, taxes, rights of set-off or dispute under the respective SRC. The Borrower remains liable for repayment of the note amount and the Operator remains liable for any performance or warranty obligations under the SRC - this will not be the responsibility of AIDEA or its co-lenders through financing or payment of the final invoice.

SUMMARY OF TERMS & CONDITIONS

Any notes and associated loan documentation will be subject to the attached term sheet, a summary of which is provided below:

Summary of Terms	
Program Availability	3 years from the date of approval
Borrower	Vessel Owner
Guarantors	Corporate guarantees by parent company or personal guarantees, as required.
Loan Amount	\$150,000 up to a maximum \$1.5 million, per note issued under the program
Term	Maximum term of 6-24 months, as determined by the Authority
Rate	US Treasury rate + a minimum 3% p.a., as determined by the Authority (subject to a floor of 5% p.a.)
Payment	Monthly or Quarterly as determined by the Authority Interest Only period 3-12months as determined by the Authority, amortizing equally thereafter.
Use of Proceeds	Up to 100% against the Contract Work invoiced by the Operator as further defined in the Ship Repair Contract, subject to confirmation and acceptance of invoice by Borrower.
Security	<ol style="list-style-type: none"> 1. Assignment of Operator's rights for payment for work completed under the Ship Repair Contract with Borrower. 2. Assignment of Operator's rights to assess a maritime lien or a filed 2nd lien for loans longer than 12 months. 3. A satisfactory Payment and Performance (Surety) Bond covering Operator's warranty and performance obligations under the Ship Repair Contract, at minimum in the amount of the Advance, with the Borrower as named obligee, satisfactorily assigned to the Lender(s)
Fees	<ol style="list-style-type: none"> 1. Application Fee: \$5,500 [3 AAC 99.590(a)] 2. Commitment Fee: 1% less #1 [3 AAC 99.590(c)]
Maximum LTV	Borrower has provided an acceptable valuation report and certifies the Total Loan to Value (LTV) of all existing and pending debt on the vessel does not exceed 75%.

PROCESS & SERVICING

The AK SHIP repair financing facility will comply with AIDEA regulations (3 AAC 99.555(b)) which requires the following steps:

1. Vessel Owner submits a preliminary application to AIDEA which will be reviewed by AIDEA staff for suitability under the program in consultation with the Alaska shipyard.

2. If AIDEA staff determines that the applicant's request is suitable for the program, the Vessel Owner will be requested to submit a full application with the required financial information and any other information reasonably requested by the Authority to perform its due diligence (3 AAC 99.555(d)).
3. AIDEA staff will perform its due diligence and evaluate the application under the established criteria (3 AAC 99.560).
4. AIDEA's Investment Committee will review the application and make a recommendation to AIDEA's Board.
5. Final approval of all applications is subject to the review and approval of AIDEA's Board.

In order to provide marine sector lending experience and insight, as provided for in 3 AAC 99.560(b), AIDEA staff will seek to engage Jim Anderson, Investments Division Operations Manager for DCCED, and his team as consultants to the AK SHIP program under a Reimbursable Services Agreement.

RISK MITIGATION & MANAGEMENT

The proposed \$10 million revolving facility benefits from diversification as the fundings under the facility are 1) short term (6 to 24 months) and 2) each advance is limited to a maximum amount of \$1.5 million per specified SRC/Vessel. There may be concentrations in AIDEA exposure per Borrower which will need to be managed as funding applications are reviewed.

The repayment obligation for a variable or fixed-rate note issued under the revolving facility is by the borrower and its guarantor(s). We address this repayment risk principally through the following credit evaluation criteria on the Borrower and its Guarantor(s):

1. Review of last three (3) year's annual financial statements;
2. Satisfactory credit reports;
3. Minimum 10% tangible balance sheet equity after including any advances under this facility; and
4. Maintenance of a minimum 1.25x Debt Service Coverage Ratio.

Secondarily, we are looking at the value of the underlying vessel after all priority secured debt or obligations under maritime law. To define and enhance this position, as much as possible, we have incorporated the following requirements into the facility structure:

1. Total Loan to Value (LTV) of all existing and pending debt on the vessel does not exceed 75%;
2. Assignment of Vigor Alaska's rights to assess a maritime lien for necessities or a filed 2nd lien for loans longer than 12 months;
3. Satisfactory liability and hull insurance for the Vessel with AIDEA as an additional loss payee; and
4. Requirement for shipyard operator to provide a Payment & Performance Bond (Surety) to cover performance and warranty obligations under the SRC.

MARITIME LIEN

Federal law (46 US Code 31342) states that a person providing “necessaries” to a vessel on the order of the owner:

1. Has a maritime lien on the vessel;
2. May bring a civil action to enforce the lien; and
3. Is not required to allege or prove in the action that credit was given to the vessel.

The only exclusion to the maritime lien are “public vessels” defined to be those of the US Government or a foreign government– for which this facility would not be applicable. Necessaries is defined to include repairs, supplies, towage, and the use of a dry dock or marine railway.

The priority of the lien is an issue which is the reason the lien is highlighted as a secondary risk mitigation and moderated by the LTV requirement. A maritime lien for necessities ranks below the principal financing on the vessel being the first preferred ship mortgage, seamen’s liens for wages, salvage and general average liens, and tort liens.

As highlighted above, the principal risk mitigation is the financial credit criteria to evaluate payment performance expectations of the Borrower/Guarantor with a fallback to the maritime lien as a way of pursuing value recapture in the underlying vessel in cases of default or bankruptcy of the Borrower/Guarantor. Per the term sheet, funding is limited to a maximum exposure of \$1,500,000 at any time to a specific vessel.

RECOMMENDATION

AIDEA staff recommends approval of this new development project financing facility under AS 44.88.172 to utilize economic development account funds for the establishment of the \$10 million AK SHIP program. With the Board’s approval, AIDEA’s Executive Director and staff will finalize the required loan documentation and begin accepting preliminary applications under the program per the terms and process outlined in this memorandum.

Attachments:

1. AK SHIP Presentation
2. AK SHIP Term Sheet



Alaska Ship Home-porting for Improvements Program ("AK SHIP")

Ketchikan Shipyard

JUNE 2019

Maintaining Alaska's Commercial & Industrial Fleet in Alaska, by Alaskans

- ✓ Enhancing the competitiveness of Alaska's shipyards within the Pacific Northwest region and Lower 48
- ✓ Reducing costs for Alaska's industrial & commercial fleet operators
- ✓ Dedicated financing matching the seasonal requirements of Alaska's maritime sector
- ✓ Scheduled maintenance cycle work at Alaska's shipyards
- ✓ Retention of a skilled workforce at Alaska's shipyards

AK SHIP FACILITY



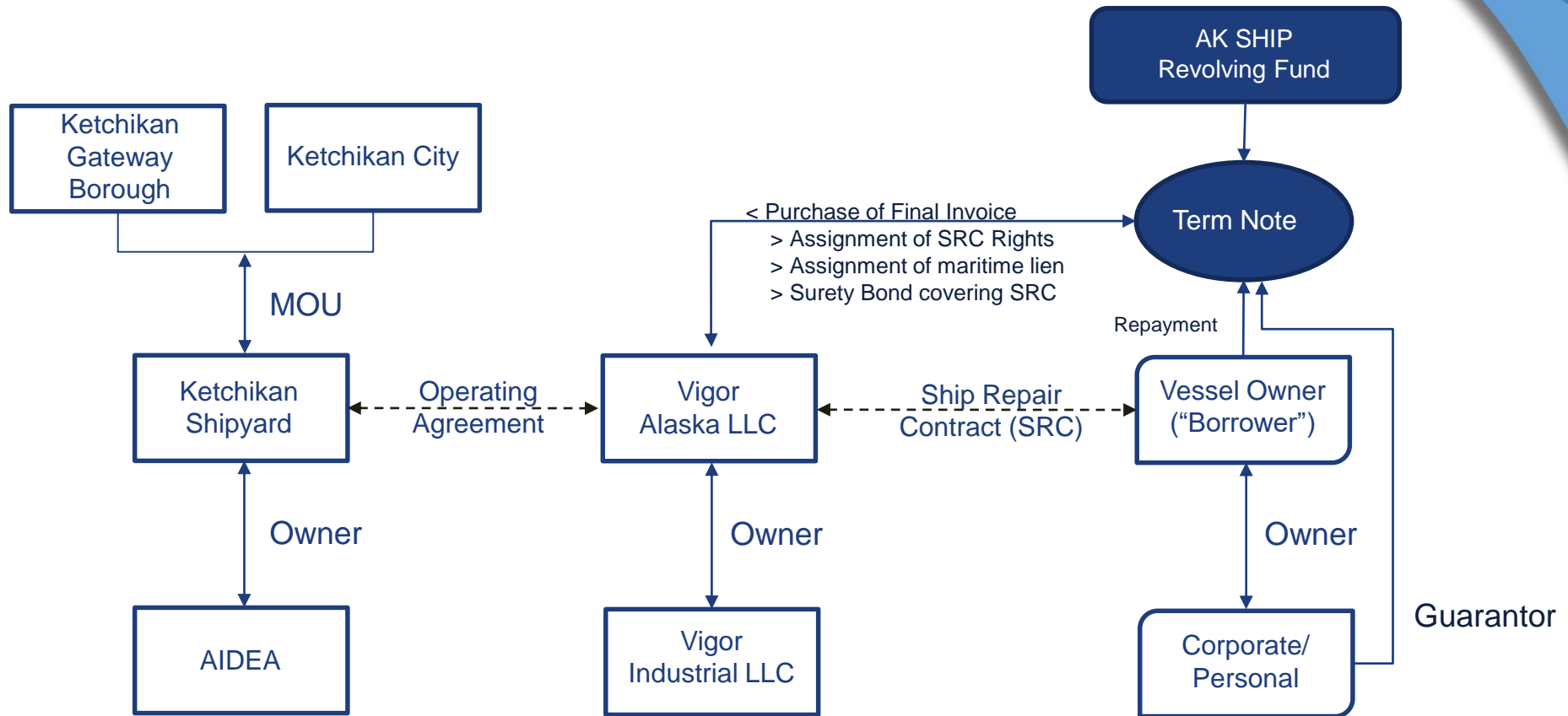
Alaska Ship Home-porting for Improvements Program

Amount:	\$10,000,000
Type:	Revolving Fund
Availability/ Term:	3 years

Loans

Amount:	\$150,000 to \$1.5 million
Type:	Individual Term Notes
Term:	6 – 24 months
Payment:	3 – 12 months Interest only, Equal Amortization Thereafter
Interest Rate:	Fixed or Variable, US Treasury+ Risk Margin (Minimum 5% p.a.)

FACILITY STRUCTURE



REQUIREMENTS



- ✓ The Contract Work is being done in Alaska and not subject to subcontracting with non-Alaskan parties. However, financing may be obtained for the portions subcontracted with Alaskan shipyards.
- ✓ Contract Work may include materials, equipment, supplies, labor, and other expenses reasonably determined to be necessary under the applicable Ship Repair Contract, exclusive of any finance charges or fees, rights of setoff, change orders, liquidated damages, cost overruns, disputes etc. which would materially adjust the Borrower's obligation under the purchased invoice.
- ✓ Loan to Value (LTV): not to exceed 75% based on the total debt secured by the vessel (inclusive of this facility) to the most recent satisfactory vessel appraisal.

- ❑ Prospective Borrower files an application with required financial information and vessel survey
- ❑ AIDEA reviews application and determines Borrower qualification, credit level and terms
- ❑ Loan under facility is proposed to AIDEA's Board
- ❑ Commitment Letter with conditions is issued to Borrower
- ❑ Borrower enters into Ship Repair Contract with Vigor Alaska as operator of the Ketchikan Shipyard
- ❑ AIDEA pays Vigor Alaska on completion of repairs and Borrower satisfactorily meeting the conditions precedent to the funding

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PRELIMINARY TERM SHEET – FOR DISCUSSION PURPOSES
Alaska Ship Home-porting for Improvements Program
(“AK SHIP”)

Purpose:

To provide a term note issuance facility to purchase the Ketchikan Shipyard’s eligible invoices for contracted maintenance/repair and improvements on specified customer marine vessels thereby providing competitive short term financing to eligible customers of the shipyard.

Terms and Conditions:

1. Lender(s)	The Alaska Industrial Development and Export Authority (“AIDEA”) and other Alaskan lenders to be determined.
2. Eligibility	Vessels owned or operated by commercial fleet operators entering into a Ship Repair Contract with Vigor Alaska LLC (“Operator”) at the Ketchikan Shipyard.
3. Borrower	Vessel Owner, subject to credit eligibility requirements as further defined in Section 9 below.
4. Guarantor	Corporate guarantees by parent company or personal guarantees, as required.
5. Facility Amount	The aggregate face amount of all Notes issued under the Facility may not exceed \$10,000,000.
6. Facility Period	3 years from the Effective Date of the Facility, extendable on an annual basis with the prior approval of the Lender(s). (Advances/Notes issued under the facility will have a maximum term of 6-24 months)
7. Facility Fees & Transaction Costs	Application Fee: \$5,500 [3 AAC 99.590(a)] 1% Upfront Fee, provided a Federal Loan Guaranty program is required.
8. Interest Rate	Either fixed or variable rate. The applicable period US Treasury Rate (“Base Rate”) plus a minimum 3% p.a. (subject to a minimum total effective rate of 5.0% p.a.) Rates may be adjusted based upon the Lenders’ assessment of Borrower’s credit quality and maximum term.
9. Financial Criteria & Covenants	Applications for Advances under the Facility may be made by Borrowers provided the following minimum financial criteria are met, to include but not limited to: <ul style="list-style-type: none"> • Borrower has provided the last three (3) years’ annual financial statements (including balance sheets and income statements), in a form acceptable to the Lender(s), for Borrower and Guarantor(s). • Satisfactory personal and/or commercial credit reports for the Borrower and Guarantor(s), as applicable. • Borrower, or Guarantor(s) as applicable, must have a minimum 10% tangible balance sheet equity, including Advances under this Facility.

	<ul style="list-style-type: none"> • Borrower has provided an acceptable valuation report and certifies the Total Loan to Value (LTV) of all existing and pending debt on the vessel does not exceed 75%. • From and after the Advance date, Borrower, or Parent Guarantor as applicable, shall maintain a Debt Service Coverage Ratio (DSCR) of at least 1.25:1 as determined as of the Borrower's or Guarantor's fiscal year end.
10. Advances	<p>Eligible ship maintenance and repair invoices to be purchased under the facility through the issuance of Fixed Rate Notes (Notes), provided in each case:</p> <ul style="list-style-type: none"> • Lender(s) have approved the Ship Repair Contract. • Minimum Amount: \$150,000. • Maximum Amount: \$1,500,000. • Advance is used solely to fund the Borrower's final invoice under Ship Repair Contracts with the Ketchikan Shipyard, unless otherwise agreed by the Lender(s); • Operator has declared completion of the Contract Work and Borrower has confirmed acceptance.
11. Repayment	<p>Maximum term: 6 – 24 months as agreed with Lender(s). Notes will have an initial interest only period of 3 months (extendable up to 12 months for e.g. 24 month term notes) and amortizing equally thereafter.</p>
12. Maximum Advance Rate	<p>Up to 100% against the Contract Work invoiced by the Operator as further defined in the Ship Repair Contract, subject to confirmation and acceptance of invoice by Borrower.</p> <p>Contract Work may include materials, equipment, supplies, labor, and other expenses reasonably determined to be necessary under the applicable Ship Repair Contract, <u>exclusive</u> of any finance charges or fees, rights of setoff, change orders, liquidated damages, cost overruns, disputes etc. which would materially adjust the Borrower's obligation under the purchased invoice.</p>
13. Security	<ul style="list-style-type: none"> • Assignment of Operator's rights for payment for work completed under the Ship Repair Contract with Borrower. • Assignment of Operator's rights to assess a maritime lien or a filed 2nd lien for loans longer than 12 months. • A satisfactory Payment and Performance (Surety) Bond covering Operator's warranty and performance obligations under the Ship Repair Contract, at minimum in the amount of the Advance, with the Borrower as named obligee, satisfactorily assigned to the Lender(s), and provided by an insurance company acceptable to the Lender(s), determined at the Lenders' sole discretion.
14. Default	<p>Subject to final documentation, to include but not limited to:</p> <ul style="list-style-type: none"> • Non-payment when due or non-compliance with any loan covenant will result in the loan being in a default status. • Cross-default to other finance facilities of the Borrower. • Remedies by Borrower to be defined within the Facility Agreement.

	<ul style="list-style-type: none"> • Resolution may involve Operator's obligation to pursue payment through a maritime lien against the Vessel specified under the Ship Repair Contract at the direction of the Lender(s). • During any default period, Interest will continue to accrue on the Note(s) at Interest Rate plus 200 basis points until cured.
15. Other Conditions	<p>Subject to final documentation, to include but not limited to:</p> <ul style="list-style-type: none"> • Operator remains responsible for all warranty and performance obligations under the Ship Repair Contract. • Operator and Borrower certify that any final invoices issued and financed under this Facility are free and clear of any duties, taxes, rights of set-off or dispute under the respective Ship Repair Contract. • Operator and Borrower agree that they will not materially modify the Ship Repair Contract without the prior consent of the Lender(s), reasonably determined in its sole discretion. • Borrower to maintain satisfactory liability and hull insurance for its Vessel, add the Lender(s) as an additional loss payee, and provide copies of insurance certificates to the Lender(s) for as long as a Note remains outstanding. • Operator and Borrower remain responsible for any Change Orders agreed by the parties and no adjustments will be made to the respective Note and associated receivable once issued, exclusive of pre-payment. • Operator certifies that all Contract Work financed under this Facility has been performed at the Ketchikan Shipyard and has not been subcontracted to any other shipyard or facility outside of Alaska. • Borrower to provide the Lender(s) with a copy of all notices sent or received under the Ship Repair Contracts. • Operator certifies that it has placed no other liens or other commitments on the Ship Repair Contract and associated receivable. • Operator and Borrower indemnifications to include the Lender(s). • Borrower agrees to apply proceeds of any sale or significant refinancing of the vessel to repayment of the Note. • No Material adverse change in the financial condition of the Borrower or the Lenders' security.
16. Conditions on Payment & Performance Bonding	<p>If a Payment & Performance Bond is being provided, then the following conditions will need to be agreed with the Insurer before the financing can be implemented:</p> <ul style="list-style-type: none"> • Insurer agrees to subordinate any surety rights until after the obligee has been fully compensated or performance fully rendered. • Waive certain rights and defenses. • Waive rights of set-off. • Any other conditions required by the Lender(s).
17. Waiver of Requirement	<p>If authorized by the Lender's statutes or regulations, the Lender may waive any requirements in this term sheet to the extent the Lender considers it appropriate or prudent to do so.</p>
18. Disclosures	<p>This term sheet is solely for information purposes. It does not represent an offer or commitment to lend and remains subject to the Lender's internal approvals.</p>

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

RESOLUTION NO. G19-15

**RESOLUTION OF THE ALASKA INDUSTRIAL
DEVELOPMENT AND EXPORT AUTHORITY CREATING
THE ALASKA SHIP HOME-PORTING FOR IMPROVEMENTS
PROGRAM ("AK SHIP") TO FINANCE COMMERCIAL SHIP
REPAIR AND OVERHAUL WORK AT THE ALASKA SHIP &
DRYDOCK**

WHEREAS, the Alaska Industrial Development and Export Authority (the "Authority") owns the Alaska Ship & Drydock located in Ketchikan, Alaska;

WHEREAS, the Alaska Ship & Drydock is operated by Vigor Alaska, LLC ("Vigor") under the Amended and Restated Agreement for the Operation and Use of the Alaska Ship & Drydock, dated effective as of December 1, 1995, that the Authority made with Vigor's predecessor-in-interest;

WHEREAS, the Alaska Ship & Drydock has the capacity to handle more commercial ship repair and overhaul work than it is currently receiving;

WHEREAS, Vigor could compete for additional commercial ship repair and overhaul work at the Alaska Ship & Drydock if a credit facility was available to assist Vigor's customers in financing the repair and overhaul work done at the shipyard;

WHEREAS, the Alaska Ship & Drydock is one of the Authority's development finance projects under AS 44.88.172 and the governing statute permits the Authority to expend funds from the Economic Development Account of the Revolving Fund to manage and operate its development finance projects;

WHEREAS, creating a credit facility to finance commercial ship repair and overhaul work at the Alaska Ship & Drydock will assist in expanding Vigor's customer base and potentially increase the volume of work performed at the Alaska Ship & Drydock and thereby would be a part of the Authority managing and operating its development finance project;

WHEREAS, the staff of the Authority has provided a memorandum to the Board to describe the proposed Alaska Ship Home-Porting for Improvements Program ("AK SHIP"), which would be a credit facility available to Vigor's customers to finance commercial ship repair and overhaul work performed at the Alaska Ship & Drydock; and

WHEREAS, creating AK SHIP is in furtherance of the Authority's statutory mission of advancing economic development and providing additional employment opportunities in the State of Alaska.

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

Section 1. The Authority hereby creates the Alaska Ship Home-Porting for Improvements Program, or "AK SHIP," which shall be a credit facility available to finance commercial ship repair and overhaul work performed at the Alaska Ship & Drydock. The sum of \$10 million of the Economic Development Account is designated as being available for AK SHIP purposes on a revolving loan fund basis. The Executive Director and the staff of the Authority shall manage AK SHIP in accordance with the memorandum provided to the Board that describes the program.


Section 2. Before the Authority commits to or makes a loan under AK SHIP, the Board must provide separate approval for each loan.

Section 3. The Executive Director is authorized to execute any documents and take any other actions necessary or useful in implementing this Resolution.

Dated at Anchorage, Alaska, this 26th day of June 2019.




Secretary


Chair