



MEMORANDUM

To: Board Members
Alaska Industrial Development and Export Authority

From: Tom Boutin
Executive Director

Date: August 7, 2019

Subject: AK SHIP – UnCruise Adventures
Resolution No. G19-18

AIDEA staff is proposing a new funding commitment of up to \$3.6 million in the aggregate to subsidiaries of InnerSea Discoveries Alaska, Inc. (d/b/a UnCruise Adventures) for ship repair work to be undertaken at the Alaska Ship & Drydock in Ketchikan.

AIDEA MISSION

The Alaska Ship Home-porting for Improvements Program (“AK SHIP”) under Resolution No. G19-17 established a maximum \$10 million 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. AK SHIP 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.

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;

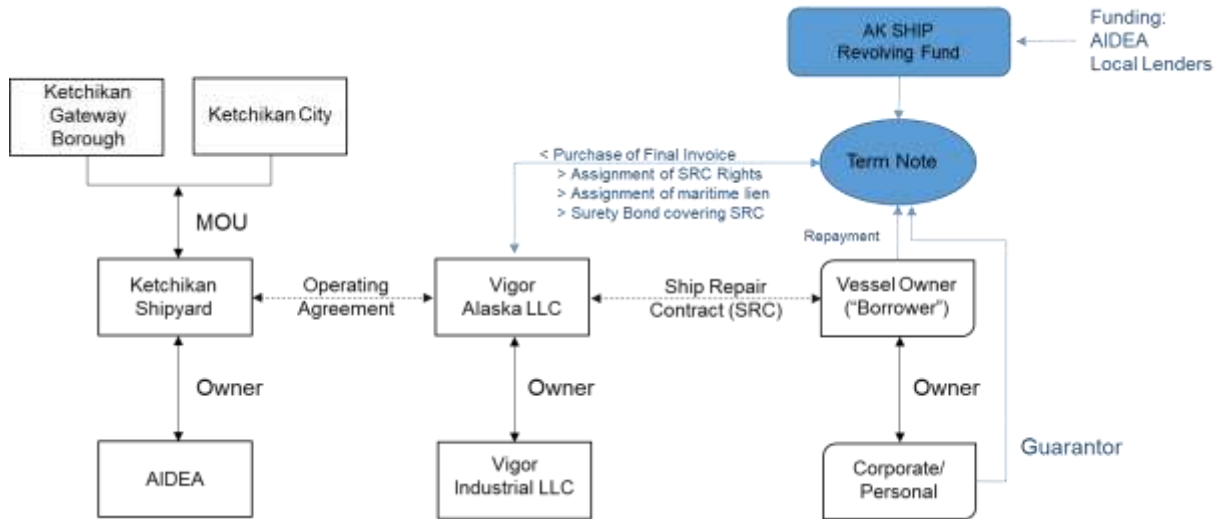
AK SHIP STRUCTURE

The program was approved June 2019 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. 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 under a

promissory note and the Operator remains liable for any performance or warranty obligations under the SRC.

For the Alaska Ship & Drydock shipyard, the program has the following structure:

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



PROPOSED LOANS

UnCruise Adventures is in process of soliciting bids for maintenance cycle work on three vessels and requesting to wrap-in financing for work already performed in 2019 for one of the vessels, all to be financed under AK SHIP. UnCruise Adventures has identified financing in its decision criteria and receives financing for repair and cycle maintenance from shipyards in the Puget Sound region:

Vessel Owner/Borrower	Amount	Operating Area
Wilderness Explorer LLC	Up to \$1,100,000	Alaska
Safari Legacy LLC	Up to \$1,500,000	Alaska, Snake & Columbia Rivers
Wilderness Adventure LLC	Up to \$500,000 plus existing invoice of \$536,698	Alaska & Washington

The Wilderness Explorer is 80% owned directly by UnCruise Adventures, the remaining 20% is held by board members, friends and family. The Safari Legacy and the Wilderness Adventure are 100% owned by UnCruise Adventures. All loans will be 100% guaranteed by the parent company, InnerSea Discoveries Alaska, Inc. (d/b/a UnCruise Adventures).

VESSEL SURVEY & LOAN TO VALUE (LTV)

UnCruise has provided marine surveys for each vessel dated June 21, 2019 and issued by Bowditch Marine, Inc. (BMI). BMI is a subsidiary of Charles Taylor plc, a global provider of technical services to the insurance market since 1884.

Vessel	Survey (June 2019)	Commercial Life Ext.	1 st Preferred	AIDEA Debt	LTV
Wilderness Explorer	\$6,315,000	12-14yrs	\$2,657,882	\$1,100,000	59.5%
Safari Legacy	\$8,550,000	17-20yrs	\$2,483,239	\$1,500,000	46.6%
Wilderness Adventure	\$4,425,000	17-20yrs	\$1,877,402	\$1,036,698	65.9%

CREDIT EVALUATION CRITERIA

Under Resolution No. G19-17 establishing the AK SHIP repair financing program and as further defined in the program's term sheet, all loans must meet the following credit evaluation criteria:

CRITERIA	DESCRIPTION
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)	AIDEA has received annual reports reviewed by James Russell, PLLC for Guarantor (InnerSea Discoveries Alaska, Inc. d/b/a UnCruise Adventures) covering fiscal years 2018, 2017 and 2016 on a consolidated and consolidating basis.
Satisfactory personal and/or commercial credit reports for the Borrower and Guarantor(s), as applicable.	A satisfactory commercial credit report on the Guarantor is a condition to AIDEA's commitment under AK SHIP.
Minimum 10% tangible balance sheet equity after including any advances under this facility	Guarantor's tangible net worth, after taking into account the \$3.6 million proposed under AK SHIP, is in excess of 10% of total assets for the most recent fiscal year ended 9/30/2018.
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%.	The Guarantor has provided marine surveys dated June 21, 2019 for each of the vessels and has confirmed that the calculations (presented above) as accurate reflecting a LTV lower than 75% for each vessel financing. Loan documentation will include this as a condition precedent to funding, a representation & warranty and a financial covenant.
From and after the Advance date, Borrower, or 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.	Guarantor's cash flow from operations (EBITDA) covered its payment on borrowings 2.34x for the most recent fiscal year ended 9/30/2018

Confidential financial information, including the financial statements of the Guarantor, will be provided to Board members under separate cover.

SUMMARY OF VESSEL LOAN TERMS

The proposed vessel short-term loans are part of the approved AK SHIP repair financing facility for work to be performed at the Alaska Ship & Drydock. UnCruise Adventures is requesting a commitment from AIDEA for use of the program based on four proposed loans to three of its vessels. The work on these vessels will occur between September 2019 and latest March 2020, subject to agreement on berth scheduling and repair budget with Vigor Alaska. One of the loans applies to financing an invoice for work performed in March 2019 and carried by Vigor Alaska for re-financing by this program. Any advances under AK SHIP are subject to the approved term sheet which has been attached to this memo (in compliance with 3 AAC 99.580), a summary of which is provided below:

Summary of Terms	
Borrower	Vessel Owner
Guarantor	InnerSea Discoveries Alaska, Inc. d/b/a UnCruise Adventures
Term	Maximum term of 6-24 months, as determined by the Authority
Rate	Fixed at US Treasury rate + 3% p.a. (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)] – Requested to be waived
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%.
Pre-Payment	Borrower agrees to apply proceeds of any sale or significant refinancing of the vessel to repayment of the loan.

The proposed financing is related to the Alaska Ship & Drydock, an asset that AIDEA owns and operates (through agreement with Vigor Alaska).

Under 3 AAC 99.500(b), the Authority may waive any requirements to the extent it is considered appropriate and prudent. We are requesting that the Commitment Fee normally applied to AIDEA's 44.88.172 investments are waived for these four loans. UnCruise Adventures is not charged upfront fees for the financing programs provided by Pacific Fishermen and Dakota Creek shipyards. Inclusion of the fees would make the effective interest rate in excess of 6.15% p.a. and more than 100bp above current competing shipyards and the company's available working capital

financing untied to Alaska shipyards. We are proposing to match the competing shipyards so this work can take place in Ketchikan.

RISK MITIGATION & MANAGEMENT

These are the first proposed commitments/funding under AK SHIP. The AK SHIP \$10 million revolving facility benefits from diversification as the underlying loans 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) years' 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.

RECOMMENDATION

AIDEA staff recommends approval of these four loans under the AS 44.88.172 \$10 million AK SHIP repair financing facility for Alaska's shipyards. With the Board's approval, AIDEA's Executive Director and staff will provide UnCruise Adventures with a commitment letter, as provided for under 3 AAC 99.570(c), subject to satisfactory final loan documentation per the terms and conditions required for AK SHIP.

Attachments:

1. Evaluation Criteria
2. Vessel Pictures
3. AK SHIP Term Sheet

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 InnerSea Discoveries Alaska, Inc. (d/b/a UnCruise Adventures) meet all the code requirements in 3 AAC 99.500-599.
(a)(2)	The project applicant's credit standing	UnCruise Adventures, as Guarantor, has provided its consolidated and consolidating reviewed annual financial statements for the past 3 years and its most recent quarterly report dated 3/31/2019. Vessel Owners are 100% or majority owned special purpose subsidiaries of UnCruise Adventures.
(a)(3)	The economic and financial viability of the proposed development project	Applicant meets the credit evaluation criteria established under the Alaska Home-porting for Improvements Program (“AK SHIP”) established by AIDEA Resolution No. G19-17.
(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 these for new loan commitments under AK SHIP, AIDEA’s exposure to UnCruise Adventures amounts to a maximum \$3.64 million. This is the second tourism industry sector investment, individually representing less than 1% of AIDEA’s total invested capital in AS 44.88.172 projects and 3.1% invested in the Tourism sector as a whole. Projects in the South East region represent 26% of the total AS 44.88.172 portfolio – increasing to 27% with these new commitments.
(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	Loan commitments extended under AK SHIP are directing scheduled work to Alaska’s shipyards. UnCruise Adventures will be using the commitments to schedule work at AIDEA’s Alaska Ship & Drydock in Ketchikan which last reported direct jobs of 200 persons and supports economic development in the South East region.

(a)(6)	The interests of local governments impacted by the proposed development project	Both Ketchikan City and Borough have previously expressed support for workforce development and the AK SHIP financing at Ketchikan’s shipyard.
(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 established for AK SHIP and approved by AIDEA Resolution No. G19-17.

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 will engage external consultants to review project agreements, security agreements and legal documentation to be established with the Borrower and Guarantor.

Photos of the Vessels to be financed:



PV Wilderness Explorer



PV Wilderness Adventurer



PV SS Legacy

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

RESOLUTION NO. G19-18

**RESOLUTION OF THE ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY APPROVING FOUR LOANS UNDER
THE AK SHIP PROGRAM TO FINANCE SHIPYARD WORK**

WHEREAS, in Resolution No. G19-15, adopted June 26, 2019, the Board of the Alaska Industrial Development and Export Authority (the “Authority”) created the Alaska Ship Homeporting for Improvements Program ("AK SHIP") to provide up to \$10 million in loans to vessel owners that have repair, conversion, and maintenance work done at Alaska shipyards;

WHEREAS, the Authority has received applications for four loans to be made under the AK SHIP Program to three different vessels that have had, or are expected to have, work performed at the Alaska Ship & Drydock in Ketchikan, Alaska, which the Authority owns and which Vigor Alaska, LLC operates;

WHEREAS, the four loans aggregate \$3.64 million in total and are to be made to subsidiaries of InnerSea Discoveries Alaska, Inc., which does business as UnCruise Adventures;

WHEREAS, one of the loans will be made for the P/V *Wilderness Explorer*, in the maximum amount of \$1.1 million, to finance shipyard work to be done; another loan will be made for the P/V *SS Legacy*, in the maximum amount of \$1.5 million, to finance shipyard work to be done; and two loans will be made for the P/V *Wilderness Adventure*, to finance shipyard work already completed and additional shipyard work to be done;

WHEREAS, making the four loans under the AK SHIP Program will assist in securing business for Alaska Ship & Drydock and will support continued employment at the shipyard and in the Ketchikan community; and

WHEREAS, the borrowers have requested that the Authority waive the commitment fees that would otherwise be due per the Authority's regulations.

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

Section 1. The four loans under AK SHIP Program to the subsidiaries of InnerSea Discoveries Alaska, Inc., d/b/a UnCruise Adventures are approved. The Authority shall make the four loans on the terms as outlined in the "Summary of Terms" portion of the memorandum provided to the Board for this Resolution, with any additional terms and any non-material variations from the "Summary of Terms" that the Executive Director, in his discretion, determines to be appropriate.

Section 2. Pursuant to 3 AAC 99.500(b), the application fees and commitment fees that would otherwise be due under the Authority's regulations for these four loans are waived. The Board determines that the waiver of the fees is appropriate and prudent for the initial loans made under the newly created AK SHIP Program.

Section 3. The Executive Director is authorized to execute and deliver all loan documents necessary to make the four loans under the AK SHIP Program. The Executive Director is authorized to disburse money from the Economic Development Account of the Revolving Fund pursuant to the final, executed loan documents to fund the four loans. The Executive Director is further authorized to take all other actions necessary or convenient to perform the Authority's obligations under the loan documents or to implementing the intent of this Resolution.

Dated at Anchorage, Alaska, this 7th day of August 2019.



Chair



Secretary