ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

RESOLUTION NO. G22-10

RESOLUTION OF THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY CONVERTING THE ALASKA SHIP HOME-PORTING FOR IMPROVEMENTS PROGRAM FROM TRIAL PERIOD TO PERMANENT ADOPTED FINANCING FACILITY

WHEREAS, in Resolution No. G19-15, adopted on June 26, 2019, the Alaska Industrial Development and Export Authority (the "Authority") approved a three-year trial project financing facility for the Alaska Ship Home-porting for Improvements Program ("AK SHIP") based on the authority set forth in AS 44.88.172(a);

WHEREAS, AK SHIP enhances the competiveness 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;

WHEREAS, the Authority has successfully completed two separate loans through AK SHIP;

WHEREAS, expansion of AK SHIP would further the purpose of the Authority;

WHEREAS, expansion of AK SHIP would include the permanency of AK SHIP and the expansion of a communication plan for the benefit of potential AK SHIP participants; and

WHEREAS, adoption of AK SHIP as a permanent facility is in the best interest of the Authority and the State of Alaska, subject to the conditions recommended as described in the attached Memorandum.

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

Section 1. The Authority hereby converts the AK SHIP program, as more fully described and created by Resolution G19-15, into a permanent credit facility available to finance commercial ship repair and overhaul work performed at Alaskan shipyards. The Executive Director is authorized to manage AK SHIP in accordance with the memorandum provided to the Board of the Authority that describes the program.

Section 2. The Executive Director is authorized to execute on behalf of the Authority any documents and take any actions necessary or useful in implementing this Resolution.

Dated at Anchorage, Alaska, this 14th day of September 2022.

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY
CORPORATE
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Chair

ATTEST
[SEAL]

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Secretary

MEMORANDUM

To: Board of Directors
Alaska Industrial Development and Export Authority (AIDEA)

From: Alan Weitzner
Executive Director

Date: September 14, 2022

Subject: Alaska Ship Home-porting for Improvements Program ("AK SHIP")
Resolution No. G22-10

REQUEST

AIDEA staff is proposing that Alaska Ship Home-porting for Improvements Program ("AK SHIP) become permanently adopted as a project financing facility under AS 44.88.172. The AK SHIP facility will continue to utilize economic development account funds and remain capped at the previously established maximum amount of $10 million.

The program is designed 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 program targets the seasonal financing needs of Alaska's industrial and commercial fleet owners and facilitates 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, the $10 million revolving fund program was allocated from the economic development account to provide 6 month to 24 month financing for ship repair work exclusively in support of Alaska's shipyards. Economic and development benefits for Alaska include:

- Matching finance programs made available to support Canadian shipyards;
- 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

PROGRAM HISTORY

On June 26, 2019, Resolution No. G19-15 was adopted by the Board initiating the AK SHIP program as a three-year trial project financing facility under AS 44.88.172. To date, the program has incurred approximately $93,269 in total expenses with 79% of this expense allocated within the first 12 months of the program as start-up cost.

Expense Type	2019	2020	2021	2022	Total
Travel	-	-	223.44	-	223.44
AIDEA Payroll Expense	17,039.94	9,857.58	12,653.80	3,741.73	43,293.05
Project Expense- Legal	18,707.23	27,967.40	3,078.71	-	49,753.34
TOTAL	**35,747.17**	**37,824.98**	**15,955.95**	**3,741.73**	**93,269.83**

The start-up cost were primarily driven by internal and external legal expenses that established the comprehensive loan documentation for the program. This documentation included the Loan Agreement, First and Second Preferred Ship Mortgage, Guarantor Endorsement, Promissory Note, and Ship Assignment.

Since 2019, the AK SHIP program has successfully financed two loans with a third loan pending finalization. The two loans have generated $131,673 in fee and interest income, offsetting the $93,269 in total expenses by $37,404. This net includes the 2022 AIDEA payroll expenses associated with the third AK SHIP loan that is pending finalization and is expected to close before the end of the year.

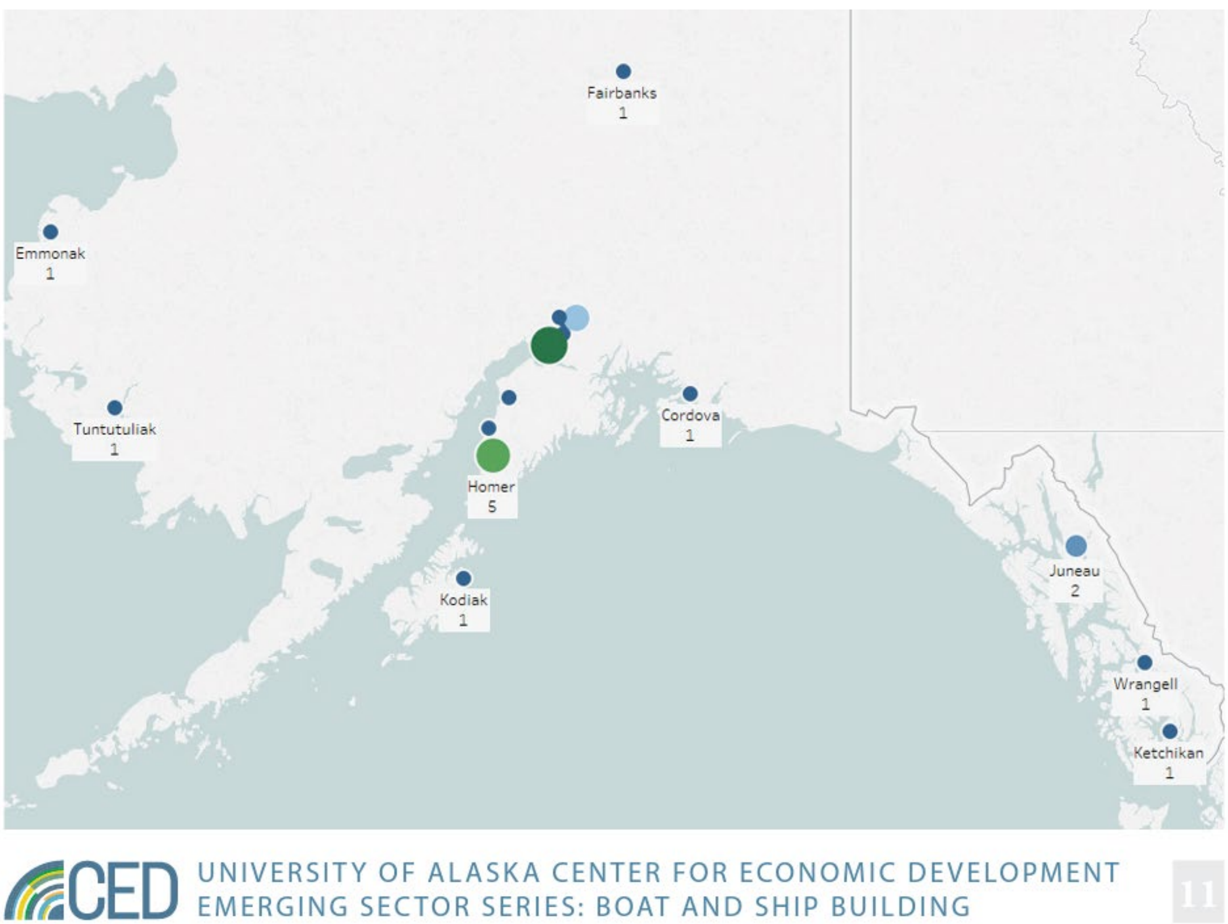
Vessel Financing	Shipyard	Notes	Fee Income	Interest Income	Total
Uncruise: Resolution G19-18 $536,698	Alaska Ship & Drydock, Ketchikan	Paid In Full 06/01/2021	$5,500	$26,416.71	$31,916.71
Drake Investments: Resolution G20-05 $1,500,000	JAG Alaska Inc., Seward	Paid In Full 12/21/2021	$15,000	$83,756.85	$98,756.85
					$130,673.56

The AK SHIP program proves it can benefit from economy of scale as the first two loans absorbed the front end fixed cost of setting up the facility for the original 3-year trail period. Variable cost, primarily associated with AIDEA payroll expenses, will remain for new loan originations, but at a reduced rate indicative of the efficiency that has been gained through the established streamline process for vetting and onboarding new loans. This will help drive significantly stronger contribution margins on each new loan and total program economics will continue improve with each new underwriting helping dilute the front end fixed cost absorbed at inception of the program and enhancing the long-term total return profile.

EXPANDING THE PROGRAM

According to the "University of Alaska for Economic Development Emerging Sector Series: Boat and Shipping Building", Alaska Shipyards have an opportunity to position themselves to compete with their lower 48 counterparts due to the growing market of an aging fleet of over 9,000 vessels greater than 28 feet, and countless number of smaller craft.

In 2016, and represented by the map below, the US Bureau of Labor Statistics estimated there were 23 establishments within the ship and boat building industry in Alaska. There have been two Alaska shipyards that have utilized the AK SHIP program but we anticipate that other Alaska shipyards may have an interest in this financing program. AIDEA Staff believes that the program should adopt a communication plan that provides critical information on the AK SHIP program to the other major ship manufacturers and repair facilities throughout Alaska. This communication plan can be done efficiently and cost effectively and AIDEA Staff anticipates that it would generate more loan originations for the program while enhancing the competitiveness of Alaska's shipyards and helping drive tangible economic benefits to the state and communities within Alaska. AIDEA Staff will work with those shipyards for eligibility into the program, subject to fulfilling AIDEA's statutes under AS 44.88.172.



AK SHIP PROGRAM OVERVIEW

Individual fixed or variable-rate loans funded under the program 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. The Borrower under this program is the vessel owner, however the payment is made directly to the shipyard operator.

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 program is that funding 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	
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 3-12 months 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	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 oblige, satisfactorily assigned to the Lender(s)
Fees	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.

RISK MITIGATION & MANAGEMENT

With the maturity of the $10 million revolving loan program, it should benefit from diversification since the loans 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 loans is by the borrower and its guarantor(s). The program application and review process mitigates this repayment risk principally through the following credit evaluation criteria on the Borrower and it's Guarantor(s):

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

Secondarily, the program looks to 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:

- Total Loan to Value (LTV) of all existing and pending debt on the vessel does not exceed 75%;
- Assignment of Vigor Alaska's rights to assess a maritime lien for necessaries or a filed 2nd lien for loans longer than 12 months;
- Satisfactory liability and hull insurance for the Vessel with AIDEA as an additional loss payee; and
- 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 necessaries 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 Resolution No. G22-10 that transitions the Alaska Ship Home-porting for Improvements Program out of the 3-year trial period and into a permanently adopted project financing facility under AS 44.88.172. The AK SHIP facility will continue to utilize economic development account funds and remain capped at the previously established maximum amount of $10 million.

Additionally, AIDEA Staff recommends that the program adopt a program specific communication plan that will provide awareness and critical information on the AK SHIP program to:

- major ship manufacturers and repair facilities throughout Alaska; and
- Alaska's ship/vessel operators.

This communication plan can be done efficiently and cost effectively. AIDEA Staff anticipates that it would generate more loan originations for the program while enhancing the competitiveness of Alaska's shipyards and helping drive tangible economic benefits to the state and our communities within Alaska.