

**ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY**

RESOLUTION NO. L21-02

**RESOLUTION OF THE ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY REGARDING MODIFICATION OF A
LOAN PARTICIPATION RELATED TO ALLEN MARINE, INC.**

WHEREAS, the Alaska Industrial Development and Export Authority (the “Authority”) purchased a participation in a Northrim Bank loan to Allen Marine, Inc. (the “Participation”) under the Authority’s loan participation program (AS 44.88.155 et seq.);

WHEREAS, the nature, purpose and terms of the Participation are described in the attached Memorandum (the “Memorandum”) from Authority staff;

WHEREAS, Allen Marine, Inc. (the “Borrower”) and Northrim Bank seek a modification to the Participation because of the unexpected downturn in the Borrower’s business due to the COVID-19 pandemic;

WHEREAS, staff of the Authority has recommended that the Authority modify the Participation, subject to certain conditions, as described in the Memorandum, due to the major economic impact caused by COVID-19 to the Participation;

WHEREAS, the Authority’s recommended modification to the Participation is consistent with all requirements for such participation provided in AS 44.88.155 et seq. and the applicable regulations of the Authority related to such participations provided in 3 AAC 99.390(c);

WHEREAS, it is currently the Authority’s policy that modifications of a loan participation be reviewed by the Authority’s Board if the Authority’s participation in the loan will equal or exceed \$3,000,000, or if the aggregate amount of the Authority's participation in

loans to any borrower or guarantor will exceed \$5,000,000; and

WHEREAS, it is in the best interest of the Authority that the Authority make these modifications to the Participation, subject to conditions recommended as described in the Memorandum.

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


Section 1. The Authority's modification of the Participation as described in the Memorandum is approved, subject to (a) the conditions recommended as set forth in the Memorandum and (b) that Borrower does not issue shareholder dividends during the modification period. The Executive Director is authorized to approve such non-material changes in the terms and conditions of the Participation as the Executive Director, in his discretion, determines appropriate.

Section 2. The Executive Director of the Authority is authorized to take such actions as may be necessary or convenient to consummate the modification of the Participation.

DATED at Anchorage, Alaska, this 23rd day of June, 2021.



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY



Chair



Secretary



MEMORANDUM

TO: Board Members
Alaska Industrial Development and Export Authority

FROM: Alan Weitzner
Executive Director

DATE: June 23, 2021

RE: Loan Participation Modification: Allen Marine, Inc.
Resolution No. L21-02

PROPOSAL

Allen Marine, Inc. (Lo. 3116047) as Borrower, and David C. Allen; Allen Marine Tours, Inc.; Allen Marina, LLC; Alaska Catamaran, LLC; Alaska Sales & Service, LLC as Guarantors (collectively as Allen Marine) has requested the Alaska Industrial Development and Export Authority (AIDEA) to modify its loan agreement under the loan participation program. This is the third modification request from the borrower and loan originator. Northrim requested a 12-month extension of interest only payments from July 1, 2021-June 1, 2022 in anticipation of a new \$12 million loan to the Borrower with BIA guaranty to be structured in the next few months. After careful review, AIDEA has proposed the following alternative modification:

1. Interest-only payments from July 1, 2021, to October 1, 2021
2. Revisit loan modification in September 2021 when the company's audited financials should be available and new funding source should be defined

BORROWER AND MANAGEMENT

Allen Marine is an Alaskan Native family-owned business that operates throughout Southeast Alaska. It was established in 1967 by Bob and Betty Allen. In 2016, their son, David Allen, became 100% owner of the company. Allen Marine has a fleet of vessels that provide whale watching tours, a local shipyard, and a small luxury cruise line Alaska Catamaran, LLC which operates under the name Alaska Dream Cruises (ADC). The business has been a major employer in the Southeast and has an excellent reputation throughout Alaska. During the season, the business typically employs upwards of 700 people although due to the pandemic staffing has been reduced to 40 core employees.

LOAN HISTORY

In May 2017, AIDEA funded a loan for \$11,886,093 at a 56.2% participation, through a Northrim origination under the loan participation program. Loan proceeds were used to refinance three existing vessel loans (two with AIDEA) into one loan. Collateral consists of 14 vessels from 48'

to 142' in length. At the time of origination, a marine survey valued the collateral collectively at \$44MM, a 48.7% LTV.

Currently, the borrower is in good standing with AIDEA and has made payments on a timely basis. Due to the economic impact of the COVID-19 pandemic on Allen Marine's operations, the loan was first modified on April 21, 2020, under emergency regulations 3 AAC 99.925. The modification granted a six-month deferral of principal payments and extended the maturity date of the loan to 12/01/2027. Then, due to the continued economic impact of the pandemic, the borrower requested a second modification on October 16, 2020 for interest-only payments to continue through June 1, 2021 with no maturity extension. Since the loan's origination, the borrower has paid \$2,818,010 in principal and \$1,269,883.50 in interest payments.

The vessels have a history of producing sufficient cash flow to support the business' debts. However, due to the economic impact of COVID-19 pandemic on the tourism industry and the subsequent decline of cruise ship passengers, the borrowers experienced a 95% decline in revenue. Alaska Dream Cruise vessels are under the 250 passenger maximum and US flagged which enables them to operate without CDC/Passenger Act restrictions. The prior modification presented to AIDEA's board included a potential sale of Alaska Dream Cruises to an overseas buyer. This transaction did not materialize.

Overall, the Borrower has made cuts in direct and indirect costs to counter the loss of revenue. This has included renegotiating contracts, halts of certain leases, and a large reduction in insurance costs. The borrower did sell some assets in the past year. These funds were used to supplement the repairs and maintenance budget for the vessels for coast guard inspection Staffing was reduced to a core 40 employees in 2020, remaining salaries were not reduced nor did any employee receive a raise. While loan modifications were in place, David Allen received distributions in 2020 in addition to his salary. Also, as a result of the loss of revenue, the borrower has taken on additional debt to continue to operate.

COVID-19 has decimated the travel, cruise, and tourism industries in Southeast Alaska for the second season in a row. Canada has extended the moratorium on cruise ships in Canadian waters until February 2022. With the 2021 cruise season significantly reduced, the Borrower is not forecasted to produce sufficient cashflow to make regular payments until mid-2022.

If Allen Marine produces cash flow in 2022 that is similar to 2019's, DSCR becomes 1.43 with this restructure. However, this is including 6 months of interest only payments and 6 months of principal and interest payments on all debt. In 2023, when debt service would revert back to regular P+I payments, with no increase in cash flow, DSCR would become 1.11. This is below AIDEA's standard of 1.25:1.

Per AIDEA staff discussions with the Lender, it is not anticipated the owner and guarantor, David Allen, will be making additional capital contributions in the near future. The borrower's 2020 audited financials are in draft form as the the final version has not yet been released. After October 1st, any further modification of the note will require the finalized 2020 audit.

AIDEA MISSION

AIDEA's purpose is to promote, develop, and advance the general prosperity and economic welfare of the people of Alaska. Under the Authority's Commercial Finance Programs through the Enterprise Development Account (also referred to as the Loan Participation or Credit Program), AIDEA accomplishes its mission by acting as a secondary market for financial institutions by purchasing loan participations and by providing guarantees on bank originated loans. The Loan Participation Program provides the benefit of long-term fixed or variable rate financing on the portion of the loan purchased by AIDEA, which provides long-term certainty in terms and reduces the business enterprise's debt service enabling new investment, expansion, and the retention of employment. Since 1992, AIDEA's Commercial Finance Program has funded over \$1.2 billion under this program supporting 9,644 construction and 9,819 permanent jobs within Alaska's economy, across all sectors and regions of the state.

RECOMMENDATION

Northrim Bank has requested AIDEA to modify Allen Marine's note to interest only for one year, then resuming regular payments for the remaining term. However, AIDEA has confirmed with Lender that the borrower is seeking alternative funding sources – specifically a \$12 million BIA guaranteed loan. Since AIDEA's participated loan is scheduled to resume principal payments in July 2021, a decision from an alternative source may not have yet been received.

Noting the urgency of the situation and Northrim's request which requires an immediate response, AIDEA staff is proposing an alternative modification for interest only payments through October 2021. This will allow sufficient time for the borrower to complete its audited financial statements, provide those to AIDEA, and receive a decision from alternative funding sources. Allen Marine's modification would then be revisited for further review at the scheduled September 22nd Board meeting.