

Alaska Industrial Development and Export Authority  
BOARD MEETING MINUTES  
Wednesday, August 3, 2022  
Anchorage, Alaska

**1. CALL TO ORDER**

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on August 3, 2022, at 10:35 am. A quorum was established.

**2. ROLL CALL: BOARD MEMBERS**

Members present: Chair Dana Pruhs (Public Member); Vice-Chair Bill Kendig (Public Member); Julie Sande (Commissioner, DCCED); Deven Mitchell (DOR); Albert Fogle (Public Member); Randy Eledge (Public Member); and Bill Vivlamore (Public Member).

**3. AGENDA APPROVAL**

**MOTION: A motion was made by Vice-Chair Kendig to amend the agenda, adding Item 6C. Discussion of Proposed Settlement between Castner and AIDEA. Motion seconded by Mr. Vivlamore.**

**The motion to amend the agenda, adding Item 6C. Discussion of Proposed Settlement between Castner and AIDEA, passed without objection.**

**MOTION: A motion was made by Vice-Chair Kendig to approve the amended agenda. Motion seconded by Mr. Vivlamore.**

**The motion to approve the amended agenda passed without objection.**

**4. PRIOR MINUTES – June 29, 2022**

**MOTION: A motion was made by Vice-Chair Kendig to approve the Minutes of June 29, 2022, as presented. Motion seconded by Mr. Vivlamore.**

**The motion to approve the Minutes of June 29, 2022, as presented passed without objection.**

**5. PUBLIC COMMENTS (2 minutes per person, for one hour)**

Chair Pruhs informed that comments are limited to two minutes per person. He asked participants to please state their name, and affiliation, if any.

Raymie Hamann, AIDEA Executive Assistant, explained the directions for the members of the public online who wished to make a public comment. There were no responses from members of the public online. Chair Pruhs asked if there was any member of the public in-person who wished to make a public comment.

Crystal Nygard, Deputy Administrator City of Wasilla and former Board member, commented that she values the work of AIDEA and loves the private sector. Ms Nygard expressed support for Resolution NO L22-02 Sun Mountain Development Group. She discussed that Wasilla is one of the fastest growing cities in the state. Wasilla is trying to keep up with infrastructure and continues to encourage businesses to move to Wasilla. There are currently 102 national chains within Wasilla and this type of development is a significant investment in the city. It creates jobs and helps to modernize the look and movement of the city. Ms. Nygard encouraged the Board to approve the resolution. She reiterated the importance of these types of investments that support a local workforce and allows for the development of Wasilla's real estate.

There being no other public comments, Chair Pruhs closed public comments.

## **6. NEW BUSINESS**

### **6A. Callan Presentation**

Alan Weitzner, Executive Director, informed that the Callan presentation is linked to the public agenda, and he introduced Alex Ford, Callan Vice-President, to review the detailed presentation. Mr. Weitzner requested that Morgan Neff, Chief Investment Officer, be available during the presentation. Mr. Weitzner informed that Mr. Ford will review the macro factors influencing today's investment returns and the expectations for the next 12 months. Mr. Ford discussed that the primary drivers of the economic activity and market performance throughout this year are inflation and interest rates. Inflation is broad-based and is currently spiking at multi-decade highs. The CPI was up 9% year-over-year through June. It has not been this high since the late 1970s and early 1980s. Rising inflation is forcing the Federal Reserve (Feds) to become more aggressive on tightening monetary conditions by increasing interest rates on the short-end to try to slow down growth. This makes the cost of borrowing more expensive throughout the economy, as shown with higher mortgage rates, higher credit card rates, higher auto loan rates, and others. The intent is that the growth slow-down will begin to abate the inflation pressures without tilting the economy into a recession.

Mr. Ford discussed that the quarterly real GDP growth contracted in the first and second quarters. He noted that two consecutive quarters of negative growth technically and historically meets the criteria for a recession. Mr. Ford explained that the point is not whether or not we are in a recession, but rather what this does to investments with the repricing of equities and the negative downside performance. Mr. Ford informed that AIDEA does not have exposure to equities, but AIDEA does have exposure to the impacts to bonds. The bond spreads have widened and the near-term performance is negative.

Mr. Ford reviewed a chart showing the primary categories contributing to recent inflation. In July of last year, transportation was the primary driver of price increases. By June of this year, price increases are more spread across different categories, including food and beverage, housing, and transportation. The Fed is aggressively responding to these price increases by raising interest rates. The Fed raised interest rates by .75% in June and again by .75% in July. Interest rate movement of this magnitude is uncommon and reflects the current unusual environment. Mr. Ford discussed the cautionary macro indicators to watch for a recession, including GDP decline, slow-down in growth in the bond market, and declining consumer and

business sentiment. Mr. Ford commented that these macro factors are influencing the performance of markets.

Chair Pruhs asked if we were in a recession. Mr. Ford noted that a recession has not officially been declared by the National Bureau of Economic Research (NBER), but he believes we are in a recession. He stated that the NBER dates the business cycle on a six to nine-months' lag. Chair Pruhs inquired as to who selects the NBER Board members. Mr. Ford explained the NBER is loosely tied to the government and is not a political body.

Mr. Weitzner apologized for interrupting. He informed that an audio issue was occurring and it was possible those attending telephonically could not hear. Mr. Fogle indicated that he could hear from online. He requested a brief recess. There was no objection.

The Board reconvened its regular meeting. Chair Pruhs requested that Mr. Weitzner review the findings. Mr. Weitzner explained that the public attending telephonically were unable to hear the meeting's audio and staff became aware of the malfunction about 10 minutes ago. Mr. Weitzner understands that the problem has been corrected. He requested that Chair Pruhs provide a summary of the meeting thus far and then continue with the Callan presentation.

Chair Pruhs reviewed that the meeting was called to order with all members attending. An amendment was made to the agenda, adding Item 6C. regarding the Castner legal matter. He noted that no public comments were requested initially.

Chair Pruhs requested to reopen Item 5. Public Comments for the public online who wish to make a public comment. There was no objection. Ms. Hamann explained the directions for the members of the public online who wished to make a public comment. There were no responses from members of the public online.

Mr. Weitzner expressed staff apologies for the time delay in resolving the issue. There being no public comments, Chair Pruhs closed public comments without objection.

Chair Pruhs requested that Callan continue the presentation. Mr. Weitzner summarized for the public that Callan reviewed macro issues related to the current interest rate environment and no specifics were discussed regarding AIDEA's portfolio. Mr. Ford resumed the presentation on page 10, showing the effects of the macro environment on the performance of capital markets in 2022. Both the equity and bond markets had their worst start to any year in many decades. This is an unusual environment because both equity and bond markets are exhibiting negative performance at the same time. The bond market cannot escape the rising interest rate environment and its immediate negative impact on bond performance. Eventually, the impact to bonds will normalize and will benefit from the higher interest rate and coupon. Mr. Ford discussed that the commercial real estate market was a positive performer in this environment.

Mr. Ford reviewed the chart showing that long-term returns for bonds continue to be positive and add value above cash and inflation. He noted that in the last 100 years, stocks and bonds have only been down together twice on an annual basis. Mr. Ford discussed that the Bloomberg Aggregate is AIDEA's benchmark for the core bond market. He showed a bar graph on page 12 of the quarterly and one-year returns. Mr. Ford explained that investments in this interest rate environment with additional spread, interest rate risk, and duration had incrementally more

negative performance. He reiterated that the interest rate environment is driven by the Fed trying to combat inflation.

Chair Pruhs inquired as to how much time is needed for AIDEA's portfolio to pivot to adjust to an interest rate environment that is either increasing or decreasing. Mr. Ford discussed that the expectation is that the Fed will continue to raise rates throughout this year and over the next six months. This is a headwind for performance. Chair Pruhs asked if AIDEA's portfolio is pivoting to adjust for that expectation. Mr. Ford agreed. He explained that AIDEA's active external managers have taken short duration, which provides relatively less exposure to interest rate increases. This has been beneficial as compared to the index, but the portfolio cannot escape the negative environment.

Mr. Neff requested that Mr. Ford explain the graphic on page 38 showing Callan's projections of rolling the yield and duration in subsequent years. Mr. Ford explained the different mathematical components of a bond's total return. The nominal yield is the interest rate. The capital appreciation is the increase or decrease of the bond's price. The default is a component. The roll yield is the bond maturing at par. The sum of the components equal the bond's total return. Mr. Ford discussed that the modeling shows that interest rates will increase over the next decade from their historic lows. A capital loss is associated with the increase of interest rates.

Chair Pruhs commented that a capital loss is incurred if the bonds are sold. Mr. Ford agreed. Chair Pruhs asked for the record if the book value and cash value of the portfolio has to be marked to market at a certain time of the year. Mr. Ford agreed and explained that mark to market accounting adjustments are made with the liquidity side of the investments. It is an unrealized loss. The bond price has declined, but the investments are not being sold.

Mr. Mitchell reiterated the point that if the securities are held to term, the principal amount remains the same. If the securities were sold in a higher interest rate environment, then the buyer would not pay the full principal amount. This is why there is a mark to market loss constant shown in the portfolio's performance. Mr. Ford agreed. He explained that over the next decade, the nominal yield component begins to outweigh the capital loss component and the sum begins to produce a positive total return in the bond portfolio. The adjustment period is difficult through the end of 2023 and 2024, but higher rates are ultimately good for bond investors.

Mr. Ford discussed that because the interest rate increases this year were both significant and fast, AIDEA's portfolio has absorbed much of the capital loss this year, as shown in year one of the modeling chart. Throughout the next nine years, AIDEA's portfolio is modeled to utilize the higher coupon immediately, which provides an improving forward total return to the bond portfolio more quickly and at a higher rate.

Mr. Ford directed the Board's attention to page 17 of the presentation to review the specifics of AIDEA's investment fund portfolio. Approximately 30% of the fund is internally managed within the Enterprise Development Fund and approximately 70% of the fund is externally managed by the two core bond fund managers, Alaska Permanent Capital and Barrow Hanley. The external managers focus on U.S. investment-grade bonds. Mr. Ford reviewed that the portfolio began the quarter with approximately \$500 million and ended the quarter with

approximately \$486 million. Mr. Ford expressed that the amount of unrealized capital loss is a good result, given the challenging path of the markets.

Chair Pruhs asked Mr. Weitzner if the \$16 million loss will be included on the financials. Mr. Weitzner explained that it will be shown as an unrealized loss on the financials and will not directly impact the calculation for the dividend to the State.

Mr. Ford informed that the bond market performance has improved from June to July and is up about 2.5%. This is a nice turnaround from the first six months of the year. Mr. Ford discussed that the Enterprise Development Fund consists primarily of short-term and cash-oriented investments. The fund has been a nice buffer during this environment. Mr. Ford discussed the performance results as of June 30, 2022 shown on page 18. He reiterated that the negative returns of the external managers are inescapable during this time. Over the last fiscal year, the composite of the external managers returned negative 10.36%, as compared with the Bloomberg Aggregate benchmark of negative 10.29%. Alaska Permanent Capital returned negative 9.97% over that period. This manager tends to lag when the market is doing well, and tends to give better downside protection and capital preservation during these times, as is shown. Mr. Ford noted that positive returns for the bond portfolio are expected in 2023 and beyond.

Chair Pruhs asked how the current free cash flow is being invested. Mr. Weitzner noted that the Investment Policy requires a certain amount of liquid cash assets are available and invested on a much shorter-term basis within the Enterprise Development Fund. If that two-year requirement of cash liquidity has been met, the funds then get invested longer-term with the external managers with Alaska Permanent Capital and Barrow Hanley. The investments have a yield component and are investment grade rated securities. The managers are reinvesting the interest and maturation funds into the portfolio for an enhanced total return.

Chair Pruhs asked if it makes sense to save the cash until the Fed increases the interest rates as expected or if it is better to invest on a monthly basis. Mr. Ford discussed that the Enterprise Development Fund contains a buffer of cash. The external managers are assigned the responsibility and have the expertise of timing the entry and exit of different market segments and individual securities. Mr. Ford believes that increasing interest rates are part of a normal long-term market cycle and the focus is to stay invested through the cycle. Mr. Ford discussed that market timing is very difficult. He reiterated that a bond investment will receive its stated interest rate each year until maturity, disregarding any fluctuation in the bond's price. Mr. Ford noted that it was discussed with the Board last year that the portfolio's 8% total return on an annual basis was not sustainable and that unrealized losses through capital depreciation were expected to occur. The managers are now able to buy at a better yield spread, which will provide a heavier return environment for the portfolio for a longer period of time.

Chair Pruhs asked if there is an industry standard or if the external managers have a planned lag to investing funds based on a forecasted rising interest rate environment. Mr. Mitchell offered his perspective. He stated that the future is difficult to predict and interest rates will continue to rise until they stop rising. Mr. Mitchell explained that it is typical for sophisticated institutional investors to create an investment policy and to give that mandate to external managers, who will provide a relatively predictable action throughout their contracted service. Mr. Mitchell

discussed that if the market knows something is going to happen, then the effect is already priced in. He reiterated that market timing is very difficult.

Mr. Neff discussed an example of how the market prices in expectations through company ratings. By the time S&P or Moody's moves to upgrade a company, the underlying debt is already trading at that level. This is the same on the down side. The market is efficient in this way. Chair Pruhs asked for the definition of the market in this context. He noted that this is the first recession-like period he has experienced in his business career and he is trying to understand how the trends are set and who is setting the trends. Mr. Neff explained that the market is comprised of the asset managers and the aggregate of all the buyers and sellers. Most bonds are traded on a daily basis. There is a general theme that is adopted when the indicators present themselves, which causes market shifts.

Mr. Ford discussed that the negative performance of the active managers has been earned to-date. The active managers are looking at the attractive forward opportunities. The spreads are wide and provide a good entry point for investment. Mr. Ford continued the presentation and showed a 20-year historical chart of AIDEA's fiscal year returns compared to the Bloomberg Aggregate benchmark. AIDEA has seen consistent strong returns in the past, with this year being very unusual in its downside.

Mr. Weitzner asked if other investors with assets under management similar to AIDEA are experiencing the same unusual circumstances of unrealized losses in the last year. Mr. Ford agreed. He explained that the historical down markets have been within the range of down 1%, and the portfolio has been able to grow steadily in a risk-adverse fashion. The last year is unlike any other year in the past 20 years, as shown on the chart, and unlike any other year in the past 40 years of data. Mr. Ford noted that AIDEA's portfolio is in a better position than other portfolios that include both fixed income and equities, due to the larger combined losses of both fixed income and equities.

Chair Pruhs asked if AIDEA should modify its investment policy. Mr. Ford responded that this unprecedented volatility in the market has provided the opportunity to review the current managers to ensure they are disciplined in their portfolio construction and they are consistent with their marketed theory and portfolio optimization. Within the investment policy statement is the ability to conduct a manager search for higher yielding fixed income investments not currently within the portfolio that have very attractive yields and risk-adjusted spreads in this pullback environment.

Chair Pruhs asked if staff anticipates returning to the Board with recommendations to adjust the current investment policy. Mr. Ford commented that no adjustments to the investment policy are expected. There is a possibility that additional managers will be recommended to broaden the investment pool. Mr. Ford reviewed the current duration and effective yield for the external investment managers compared to the Bloomberg Aggregate Index.

Mr. Fogle expressed appreciation for the information presented. He looks forward to hearing the recommendations for the investment policy updates.

**6B. Resolution No. L22-02 Sun Mountain Development Group, LLC**

Chair Pruhs requested that Mr. Weitzner present on the resolution and memorandum attached to the agenda. Mr. Weitzner discussed that Resolution No. L22-02 regards the purchase of a participation in Sun Mountain Development Group, LLC. The memorandum summarizes the loan participation and background information. In 2019, AIDEA approved initial loan participations with the Sun Mountain Development Group relative to their development in Wasilla which encompassed providing commercial lease spaces to lessees including Sonic, Krispy Kreme, and Planet Fitness. This resolution is an expansion of those efforts.

Mr. Weitzner requested that Tiffany Janssen, Commercial Finance Director, review the memorandum. Ms. Janssen noted the location is on East Sun Mountain Avenue, Unit D in Wasilla. The originating bank is Northrim and has requested AIDEA's participation of 90%, equaling \$2,929,500 for a 25-year term at a fixed rate of 4.92%. Northrim's 10% participation equals \$325,500 for a 12.5-year term at a three-year variable rate of the Federal Home Loan Bank of Boston plus 2.8%, which equals approximately 6.26%.

Ms. Janssen discussed that Sun Mountain Development Group has a complicated ownership structure. They are owned by three different entities; A&C Investment Group, H5 Construction, and Twenty Eight INV. The entities and the individual owners are all listed as guarantors. This particular part of the development was constructed in 2020. Some of the tenants are in their second year of tenancy. The proceeds will refinance the construction and bridge loan for long-term financing and an equity extraction to be used specifically for future Alaskan projects that benefit economic development and job creation and retention.

Ms. Janssen explained that this project supported about 65 temporary construction jobs. There is currently one tenant vacancy. The financials and debt service coverage ratio of 1.62:1 are based off of actuals. Mr. Weitzner commented there are additional economic developments attached to the project. It creates commercial space and generates jobs for the community of Wasilla. Ms. Janssen discussed the project is a non-owner occupied property that creates space and jobs for new businesses or for existing businesses to open second locations.

Ms. Janssen showed pictures of the 11,400 square-foot Class B retail/office development located on the Parks Highway. She expressed appreciation to Ms. Nygard's pledged support for the project. Ms. Janssen explained that the appraiser estimates the remaining economic life of the collateral at 45 years. Accelerated amortization has been included in the proposal, which will enable the loan to be paid off in a shorter period of time. The current project is one of Mat-Su Borough's largest property tax payers at about \$110,000 per year. The proposal would add another \$23,000 to the property tax amount.

Ms. Janssen discussed the guarantor-related AIDEA loans listed on page three of the memo. The total aggregated of loans, including this proposed loan, is \$13,323,208. There is a further project at AIDEA's preflight stage that would be in addition to this amount, if approved. Ms. Janssen advised that each loan has performed as agreed, including two of the loans that received three-month deferral periods of principal and interest payments in 2020.

Ms. Janssen noted the Phase I environmental site assessment was prepared by AlaskChem Engineering in 2018 in preparation for the entire development. There was no evidence of recognized environmental conditions in connection with the subject property. Ms. Janssen visited

the property in July and observed no areas of concern. She discussed that Wasilla is growing and surpassed Fairbanks NorthStar Borough as Alaska's growth leader since 2015. The growth trajectory is expected to continue.

Ms. Janssen reviewed the listed portfolio diversification prior to the proposed loan and after the proposed loan for the region, collateral type, industry, and aggregate exposure. Northrim has approved the loan due to the strong financial support and experience of the developers and management team and due to the potential for further new businesses to expand to the subdivision with the addition of the project. Staff recommends approval of the resolution due to the excellent condition of the collateral with a high likelihood of resale. It is occupied by quality long-term tenants. The project will create temporary construction jobs and will provide long-term jobs by the tenant businesses.

Ms. Janssen informed that the originating bank loan officer Tim Breeden, Northrim, and one of the owners, Andrew Ingram, are attending today and are also available to answer any questions.

Chair Pruhs note that after questions were asked during public session, he will request to enter into executive session to discuss confidential financial information related to the resolution. He asked that Wendy Horton, Department of Law, attend the executive session.

Mr. Mitchell asked what the anticipated prospects are for the last remaining unit. Mr. Ingram informed that the last space has recently executed its LOI with agreement by the attorneys. This increases the tenancy level to 100%.

**MOTION: A motion was made by Vice-Chair Kendig to enter into Executive Session to permit representatives of Sun Mountain Development Group to present confidential financial information. This matter is protected information. Executive Session on this topic is permitted under Alaska Statute 44.62.310, which provides that in Executive Session, it is appropriate to discuss matters which by law are required to be confidential.**

Chair Pruhs added a friendly amendment that the Board will discuss the project's confidential financial information in Executive Session without the presence of the borrower. There was no objection to the friendly amendment.

**The motion to enter into Executive Session to permit representatives of Sun Mountain Development Group to present confidential information and for the Board to discuss the project's confidential financial information was seconded by Mr. Vivlamore.**

**A roll call vote was taken and the motion passed unanimously, with Commissioner Sande absent.**

**EXECUTIVE SESSION: 11:55 am**

The Board reconvened its regular meeting at 12:29 pm. Chair Pruhs advised that the Board discussed third-party confidential financial records during Executive Session. The Board did not take any action during Executive Session.



Chair Pruhs welcomed Mr. Breeden to discuss the project. He asked Mr. Breeden about his professional background. Mr. Breeden indicated that he has been with Northrim for three years and prior to that, he was with First National Bank Alaska for 15 years. Chair Pruhs asked for Mr. Breeden's opinion on the economic atmosphere in Wasilla and the Valley. Mr. Breeden noted he worked in Anchorage for 10 years and did not realize Anchorage was in such a recession until after he began working in the Mat-Su Valley.

Chair Pruhs noted that the loan before the Board today is structured that Northrim participates in 10% of the loan. He requested additional information on the reason that Northrim is only participating in 10%, given that the Valley is busy and the borrowers seem to be strong. Mr. Breeden discussed that under other circumstances, the bank would probably desire to have more of the participation percentage. The bank goes through a similar process and this structure works well for the buyers in this case. The bank is approaching the legal limit with this particular borrower on this project plus other future lending opportunities that are preflight status.

Chair Pruhs asked if this specific AIDEA program was valuable to the borrower. Mr. Breeden agreed and explained that the low fixed interest rate offered through AIDEA for up to 25 years helps the borrower to put additional cash in their pocket to fund other projects leading to more investments and more jobs. He believes AIDEA offers an outstanding product and Northrim is thrilled to utilize the program.

Mr. Weitzner highlighted that one of the discussions with Northrim and with the borrower regards the equity extraction and the certification that the funds are to be reinvested into other economic development opportunities within Alaska. Staff believes this is a positive aspect of the project.

A question was asked if Mr. Breeden knows Jaime Kissner. Mr. Breeden agreed that he knows Mr. Kissner and that he is an excellent Northrim lender in Juneau. They also worked together at First National. Ms. Janssen informed that she, Mr. Breeden, and Mr. Kissner all worked at FNBA.

Chair Pruhs asked Mr. Breeden for his overall economic forecast of the market in the Valley for the next six months to 18 months. Mr. Breeden discussed that a slow-down would not be bad because there are numerous opportunities. He noted that the rising interest rates will have an impact in the housing market and on commercial projects. Mr. Breeden noted that lenders are being as mindful as possible regarding the safety of future projects for the bank and for the borrower. When the borrower succeeds, the bank succeeds. He believes there will be continued economic growth, additional investments, and relocation to the Mat-Su Valley. This increases demand for jobs and development projects. Mr. Breeden discussed that Northrim has done a good job in the COVID-19 era of taking care of their customers during the administration of the PPP Loan Program. He noted that with the additional challenges recently, there came additional opportunities as well.

Mr. Mitchell added his perspective that Alaska's closest recession-proof area is the Mat-Su Valley. Population outflows have occurred in other areas of the state. The Mat-Su area has maintained consistent growth and he believes it is one of the strongest economic areas of the state. There were no additional questions.

**MOTION: A motion was made by Vice-Chair Kendig to approve Resolution No. L22-02 Sun Mountain Development Group, LLC. Motion seconded by Mr. Vivlamore.**

Mr. Weitzner informed that he recommends approval of the resolution, along with the Commercial Finance Director, the Chief Investment Officer, and staff.

**A roll call was taken, and the motion to approve Resolution No. L22-02 passed unanimously, with Commissioner Sande absent.**

#### **6C. Castner Litigation Settlement Discussion**

##### **EXECUTIVE SESSION: 9:06 am**

Mr. Weitzner expressed appreciation to the Board for adding Item 6C. Castner Litigation Settlement Discussion. He noted his understanding that the details of the proposed settlement agreement were discussed during today's previous AEA meeting. Mr. Weitzner requested that Gene Hickey, Department of Law, join today's discussion and answer any questions. Mr. Weitzner reviewed that the lawsuit of Kenneth Castner versus AIDEA and AEA is currently pending in Homer's Superior Court. The lawsuit alleges that the Boards of AIDEA and AEA have continuously violated the Open Meetings Act since September of 2020. On Monday afternoon, Mr. Hickey and Mr. Castner arrived at a proposed settlement agreement concerning the claims. Mr. Weitzner thanked the Board for adding the item to today's agenda. The written settlement agreement is only binding if both Boards of AIDEA and AEA provide approval. Mr. Weitzner opened the floor to questions or discussion by Board members.

Chair Pruhs requested Mr. Hickey to provide additional information. Mr. Hickey noted that the settlement agreement specifies the requirement that AIDEA recognize the policy behind the Open Meetings Act. The main provision of the settlement agreement is language concerning how the AIDEA Board will move into and come out of executive session. Another requirement is a slight departure from the law with regard to a roll call vote at all times to move into executive session. The settlement agreement requires the Board to follow the Open Meetings Act. There were no questions.

**MOTION: A motion was made by Vice-Chair Kendig to approve the proposed settlement agreement between Mr. Castner and AIDEA, and to authorize Mr. Weitzner, Executive Director, to sign the settlement agreement. Motion seconded by Mr. Vivlamore.**

**A roll call was taken, and the motion to approve the proposed settlement agreement between Mr. Castner and AIDEA, and to authorize Mr. Weitzner, Executive Director, to sign the settlement agreement passed unanimously, with Commissioner Sande absent.**

Mr. Weitzner expressed appreciation to Mr. Castner for working with Counsel to resolve this issue and looks forward to compliance with the Open Meetings Act.

#### **7. DIRECTORS COMMENTS**

##### **7A. Update MFZ Land Development**

Mr. Weitzner discussed that the MFZ (Military Facility Zone) Land Development is in partnership with the City of North Pole. He requested Mr. Neff and Angela Kuest, AIDEA Program Manager, assist in the review the presentation that is linked to the agenda. Mr. Weitzner began by reiterating AIDEA's role and mission to promote, develop, and advance economic growth and diversification in Alaska and focus on job growth and retention within Alaska. The returns from the investments are either reinvested in AIDEA's programs and projects or are issued as dividends to the State of Alaska and the general fund. Since 1967, over \$3.5 billion dollars in investment has been directed to the State of Alaska and \$446 million in dividends have been issued to the State of Alaska. He noted that the presentation slide needs to be updated with the current amount.

Mr. Weitzner discussed that the MFZ Land Development project is focused on supporting Alaska's expanding military mission. Alaska is strategically positioned in the Arctic and in the Indo-Pacific regions. Staff believes this project benefits the local economy of the City of North Pole and the Fairbanks NorthStar Borough (FNSB) by increasing utility infrastructure within the community, adding off-base housing and off-base goods and services, injecting new revenues in the form of sales tax and property tax, and adding local military procurement. Mr. Weitzner noted that the military has procured nearly \$2 billion per year on goods and services in Alaska, and 80% of that has been to Alaska companies.

Mr. Weitzner reminded the Board that the project is structured as a public/private partnership for the initial phase of housing development to accommodate 100 to 150 housing units in one development in the City of North Pole. The partnership is with North Pole and FNSB. The City of North Pole agrees to acquire land and transfer the land to AIDEA. The land development and the cost structure will be recovered through rental agreements with the military families and others within the community, and will benefit from the FNSB 10-year property tax abatement. AIDEA is asking for the City of North Pole to also include a 10-year property tax abatement for their portion.

Mr. Weitzner informed that AIDEA is developing the land lots and local housing contractors will build the units within a cost structure that is expected to sustain a rental payment amount that is beneficial to military families. AIDEA is seeking partnership with local lenders and organizing long-term financing with Alaska Housing Finance Corporation (AHFC) utilizing their programs directed toward the MFZ. AIDEA is able to provide patient capital under AS 44.88.172, specifically an infrastructure project for an area that is designated as an MFZ. The City of North Pole is the only MFZ currently in the state of Alaska. Mr. Weitzner informed that the City of Fairbanks has filed for an application to become an MFZ.

Chair Pruhs asked if the land master development includes the design of the units. Mr. Weitzner discussed that AIDEA's funding of the land master development includes the full layout and design specifications of the units to give to the builders. Staff is working with a third-party consultant Stantec regarding the layout of the design. The intent of the master planning is a common design and common allocations of the different units and specifications in order to reduce the building costs. Chair Pruhs suggested including that full description within the bullet point. Mr. Weitzner agreed.

Mr. Weitzner discussed the slide showing the map of the 36-acre property within the Fairbanks Northstar Borough. The property is directly adjacent to the City of North Pole and interconnects with water, sewer, electric, and gas. The property has undergone a full environmental review.

Chair Pruhs asked if the City of North Pole will annex the property. Mr. Weitzner explained that discussion is occurring with the City of North Pole and the intent is to make a good faith effort to go through the processes and requirements of annexing the land to the City of North Pole. Chair Pruhs asked how annexing the land would affect the cost of the development project. Mr. Weitzner indicated that certain factors are associated with annexing, but the effect on the cost would be mostly neutral. Mr. Weitzner stated the factors are related to services to the land from the City.

Mr. Weitzner reviewed the summary slide of actions that have been undertaken since the Board approved Resolution G22-02 on January 27. The most recent public work session was on August 1, with the North Pole City Council. Today's presentation was reviewed, but not in its entirety, due to time constraints. Follow-up discussions are ongoing with the Mayor of the City of North Pole.

Mr. Weitzner requested Ms. Kuest provide a summary of the review and conclusions of the environmental due diligence. Ms. Kuest explained that an environmental Phase 1 was conducted and an addendum was issued. Soil samples were collected per Alaska Department of Environmental Conservation (DEC) procedures. The results were favorable and are considered valid and definitive. No PFAS was detected in any of the samples. The results letter was issued July 7. Ms. Kuest noted that the consultant who performed the sample testing explained the results and provided assurances to the North Pole City Council at the recent meeting regarding their concerns. Mitigations include mandating that the subdivision does not have the option for basements. This prevents groundwater zone penetration where there is known historic Sulfolane and PFAS contamination plume. DEC has provisions for installation of water and sewer utilities and best management practices. Ms. Kuest informed that Department of Health confirmed that these plans address the known pathways that need mitigation for this housing development.

Chair Pruhs asked for the sales price of the land. Mr. Weitzner noted that the sales price of the land is quite reasonable at \$250,000. Ms. Kuest noted that an extension of the sale of the property was agreed to yesterday. Mr. Weitzner discussed that the original closing date for the land acquisition was scheduled for August 5, but the full agreements with the City of North Pole are not yet in place. Mr. Weitzner expressed appreciation to the owners for extending the purchase agreement.

Mr. Weitzner requested that Mr. Neff review the subdivision concept design as shown on slide nine. Mr. Neff discussed that the layout and the demand for the units will continue to be a fluid conversation with the military. The slide shows the result of the communication with the military and the demand for off-base housing for enlisted members at Eielson Air Force Base. Mr. Neff discussed that the project remains economically challenged from the perspectives of the local housing builders due to pricing and macro factors that are affecting development projects. Cost of construction is at all-time highs and while the construction labor force has not returned to its pre-pandemic levels, the construction wages and salaries have increased nearly 25% since the pandemic.

Mr. Neff noted that the current movement of interest rates is affecting the builders' required rate of return on the capital borrowed from banks. The effect is either to compress the total return or to raise the rent inputs needed to achieve the rate of return. Mr. Neff discussed another continued issue affecting the economic feasibility is the military's Base Allowance for Housing (BAH) rates.

Chair Pruhs inquired as to the reason the two cul-de-sacs in the design are surrounded by wetlands. Mr. Weitzner stated that the anticipation is that those areas would be public spaces for walking trails. Chair Pruhs asked how the cul-de-sacs are in the wetlands. Ms. Kuest commented on the confusion of the diagram implies that the cul-de-sacs are in the wetlands. Her understanding is that the cul-de-sacs do not go into the wetland delineated area. No wetland permitting would be required. Chair Pruhs suggested removing both of the cul-de-sacs and including an eight-foot paved bicycle trail with space to turnaround.

Mr. Weitzner clarified that the initial \$150,000 budget advanced the project to a very preliminary concept. A full development agreement by the City of North Pole and an investment decision approval by AIDEA would be needed to advance the full concept layout and engineering design elements. AIDEA's level of long-term investment would be substantial and in the range between \$11 million to \$15 million. Mr. Weitzner discussed that the concept includes one to three-bedroom units. The target is to ensure there are over 100 units to meet the need for the military command.

Mr. Weitzner discussed the preliminary terms of the Mutual Development Agreement with the City of North Pole, including the purchase of the land and the transfer of the land ownership to AIDEA. It is expected that the City of North Pole will pursue the annexation of the land within the initial two-year period of the development to include the land under its MFZ designation and to avail the residents of the benefits of full City services, including not only water, sewer, electric, and gas, but also emergency services, fire protection, and police protection.

Mr. Weitzner reviewed that the Agreement ensures a satisfactory time period to undertake the development with an initial period of two years, subject to extension, if required. The City of North Pole requested the agreement that if AIDEA ultimately does not continue the housing development project, that the land is returned to the City of North Pole. AIDEA's intention is to move forward with the due diligence as a housing unit development. AIDEA is responsible for the permitting requirements for the development.

Chair Pruhs asked if the permits include driveway permits, building permits, and inspection fees for the houses. Mr. Weitzner noted AIDEA's responsibility is related with the master planning for the land development. It would not include the permitting for the construction of the housing units. Chair Pruhs asked if AIDEA would be responsible for the water and sewer hook-up fees. Mr. Weitzner explained that the current vision is for AIDEA to undertake the permitting costs for the connection to the City's water and sewer mains, and that the builders will undertake the costs to hook-up the individual units. A comment was made that this is the standard business practice.

Chair Pruhs inquired as to building codes required by the Borough and options for trash services. Mr. Neff discussed that his understanding is that trash services are contracted to a third-party. The resident will be responsible for paying for trash collection. Mr. Weitzner informed that snow

removal for the main road network is being considered as a service that the City would provide to the community. Snow clearing of different parking areas would have to be conducted individually.

Chair Pruhs expressed his assumption that the language will read that AIDEA shall comply with all current construction codes and covenants as required by the City, rather than agreeing to follow any future codes that are unanticipated and that may drastically add to the cost structure. Mr. Neff noted that there are two different codes between the Borough and the City. AIDEA will follow the most stringent code. Chair Pruhs asked if Golden Valley Electric Association (GVEA) is offering underground power. Mr. Weitzner noted that has not been addressed yet. Chair Pruhs suggested that GVEA provide the preliminary cost structure for a new development. Mr. Weitzner agreed to follow-up and informed that these elements of due diligence are slated for later in the development. Chair Pruhs reiterated that the associated costs need to be identified and included when making the business decision for funding.

Mr. Vivlamore asked if the project area automatically becomes part of the MFZ if it is annexed by the City of North Pole. Mr. Weitzner expressed his understanding that the MFZ would be an automatic designation if the project area was annexed.

Chair Pruhs hopes that it is known in advance whether or not the City of North Pole can support annexation. Mr. Weitzner identified that the City Council and the Mayor have raised the issue about annexation and the amount of time that is involved with the process of either a public referendum or a legislative process. Chair Pruhs asked if the project would move forward prior to annexation. Mr. Weitzner discussed that analysis is ongoing to determine what can be achieved with the understanding of working together toward annexation and what risks are involved if the project area was not annexed or approved.

Chair Pruhs asked if AIDEA is precluded from undertaking the development project if the area is not within an MFZ. Mr. Weitzner does not believe AIDEA would have the statutory ability to undertake the development if it were not within an MFZ. The land development is based upon the fact that it is in an MFZ and is a facility related to the military. Annexation is a key element of the development.

Chair Pruhs asked Wendy Horton, Department of Law, to comment on the statutory limitations for AIDEA investing in this type of development. Ms. Horton noted that she would like to research the effects if the development is not for the military before providing comments.

Mr. Weitzner discussed the element on the project economic feasibility relating to the Fairbanks BAH rates as shown on slide 14. This information has been shared with the delegation and Department of Defense. Adjustments have been attempted, but it is unknown if any adjustments will be accomplished this year. Every other military housing area within Alaska has higher base housing allowances than the City of North Pole and the Fairbanks Northstar Borough. The military declaration of the rates for the cost of housing and utilities over the last two years in the area has decreased, whereas every other area in Alaska has increased. Staff has attempted to understand the source of the information that has led to the declaration. All the empirical information staff has identified shows that rental rates, housing costs, and utility costs have increased within the Fairbanks area.

Mr. Neff commented that staff does not have additional information to justify the incongruity between the BAH rates and the actual market rents that are occurring in the area. He noted that the current BAH rates materially limit the ability for service members to rent the proposed one-bedroom, two-bedroom, and three-bedroom units.

Chair Pruhs requested additional explanation of the chart on slide 14. Mr. Neff discussed that with the current BAH rates, 90% of the enlisted service members without dependents would be able to rent a proposed one-bedroom unit and none of the enlisted service members without dependents would be able to rent a proposed two-bedroom or three-bedroom unit. With the current BAH rates, 100% of the enlisted service members with dependents would be able to rent a proposed one-bedroom unit and 50% of the enlisted service members would be able to rent a proposed two-bedroom or three-bedroom unit.

Mr. Neff explained that with AIDEA's proposed BAH adjustment to align with FNSB rental markets, 100% of the enlisted service members with dependents would be able to rent a proposed one-bedroom unit and 90% of the enlisted service members would be able to rent a proposed two-bedroom or three-bedroom unit. This increase in the ability to rent the proposed units to enlisted service members who have families is critical and meets the military's need for housing units for service members and their families. Mr. Neff discussed that enlisted service members who come to the base are not allowed or able to bring their family unless they pay for their family's housing.

Chair Pruhs commented that in his business experience, the negotiated contracts for union construction wages have increased only 2.5% over the last couple of years and are expected to increase 2% next year. Chair Pruhs asked if the 25% increase shown on slide 13 reflects construction salaries. Mr. Neff agreed, and noted that the data is based on non-unionized private labor participation from Alaska that is published at the federal level as it pertains to Alaska and specifically Fairbanks. Chair Pruhs asked if the infrastructure work, including roads, will be completed at Davis-Bacon rates. Mr. Weitzner responded that research is needed to accurately answer due to possible exclusions. He commented that AIDEA's capital projects are subject to Davis-Bacon wages.

Mr. Mitchell offered a suggestion that could be researched regarding an efficient way to utilize the proposed 10-year city tax abatement revenue. He noted that Alaska has specific tax increment financing laws that utilize the increased value from a development and pledge it to a bond issue that could be used for common infrastructure on a tax exempt basis. Mr. Neff discussed that the larger portion of the funding capital will be on the vertical side and is directly associated with the tax abatement. The economic benefit for the City of North Pole is from sales tax, rather than their four mill rate property tax.

Chair Pruhs asked if the project would increase the student allocation to help fund the schools. Mr. Neff agreed.

Mr. Weitzner highlighted that the sales tax increase that would benefit the community is a key driver of the equation when considering the property tax abatement. The reason for illustrating the BAH and the occupancy assumptions of the development is due to the analysis being driven by military personnel. The housing units will ultimately be available to the broad community as

required under federal law. The project has been assessed to ensure there is an affordability of the development that meets the military mission. Staff is not in a position to propose a full investment decision because the cost dynamics are being impacted by the high cost of lumber and construction costs and the non-aligned housing allowance within the Fairbanks community. The BAH rates for next year will be released in December, unless an emergency declaration or accommodation is made before then.

Chair Pruhs discussed that one of the ways to facilitate a particular action is to create a crisis. He does not know if this is the proper way to ask; is the crisis being manufactured for a particular outcome. Chair Pruhs noted that the crisis is that the military at Eielson AFB does not have enough housing for the families of service members. Chair Pruhs asked if the ultimate goal is to build housing on the base because of the crisis and that the community could not respond. Mr. Weitzner discussed that the community has been reviewing this issue for the last four to five years. The reason AIDEA has become engaged is to change the dynamic of the discussion by identifying that at least 100 to 150 units would be developed and added to the community.

Mr. Eledge commented that he believes all DOD military installations have been mandated to reduce their carbon footprint. Chair Pruhs asked if the mandate was before or after the events in Ukraine. Chair Pruhs raised the question if the goal is to build housing at Eielson AFB.

Mr. Vivlamore commented that the Air Force has committed that they will not build housing at this point. The community has not responded because of economic reasons and the BAH rates in the Interior. Chair Pruhs commented that if the BAH rates are not increased, then he believes they are creating a crisis for their own means. Mr. Vivlamore noted the claim is that it is an independent process.

Mr. Neff noted that the BAH rates are now a national focus because there are multiple communities in areas that are impacted by lower BAH rates than the underlying market rental rates. Chair Pruhs agreed with Mr. Neff that AIDEA cannot do much if the military does not increase the BAH rates.

Mr. Eledge asked if the price of the property was considered reasonable based on the gross developable area or on the total area. Mr. Weitzner informed the reasonable price is based upon the selection of properties available within the City of North Pole and adjacent to the City of North Pole in order to access services.

Mr. Mitchell asked if the development has any natural phasing potential for construction of the units. Mr. Neff indicated AIDEA's involvement is primarily the infrastructure of the land, including water and sewer. Mr. Neff noted that he does not have a clear understanding of how a phase approach would occur with critical infrastructure. Chair Pruhs commented that a phased approach for land infrastructure can occur. Mr. Neff discussed that the economic modeling is structured to benefit from scaled pricing of material, labor, and services.

Mr. Vivlamore commented that the market needs the initial boost of about 100 units. He discussed the infrastructure of water and sewer, for example, is approximately 3,600 feet offsite and 3,950 feet onsite. Half of the infrastructure cost of water and sewer is getting the water to the site.



Mr. Weitzner informed that the project economic feasibility assumptions and modeling shown in the presentation is based on full development and includes the cost benefits of volume ordering.

Chair Pruhs expressed appreciation for the great presentation. There were no additional questions.

#### **7B. Update Mustang Holding LLC**

Mr. Weitzner discussed that the memorandum attached to the agenda provides the update of the elements of the Mustang development and the extended restructuring process of the asset since it entered the nonpayment status and foreclosure. Work is ongoing with the stakeholders to reach a positive development that is incremental to oil flow rates and royalties to the State of Alaska, as well as beneficial returns of the initial investment. Mr. Weitzner identified that a term sheet has been signed with an operating party for the field leases that are currently held by AIDEA's subsidiary Mustang Holding LLC. The term sheet is confidential under Article 44.88. It has been provided to Board members within their confidential packet. After the final agreements have been signed, the document will become publically available for review.

Mr. Weitzner informed that payments have been received that were due under the oil and tax credits allocated through the Legislature this year. He asked Mr. Neff to provide a summary of the loan and the different exposures. Mr. Neff directed the Board's attention to the schedule attached to the memorandum. He informed that the anticipated oil and tax credit payment of \$9,926,224 has been received, which resulted in the complete retirement of the 2016 credits associated with the Department of Revenue tax loan. The remaining value of the two 2018 certificates are \$2,123,000 and \$269,000. These are subject to future appropriations from the Legislature.

Mr. Weitzner discussed the goal is to obtain definitive agreements with the proposed operator for the development of the Mustang Field. He anticipates additional allocations on the oil and tax credits that are owed on the facility acquired from Department of Revenue. There were no questions.

#### **7C. Loan Dashboard Report**

Mr. Weitzner reviewed that the Loan Dashboard Report linked to the agenda is prepared by the Tiffany Janssen, Commercial Finance Director. It provides a summary of the outstanding loans, predominantly under the Loan Participation Program. The total fund ending loan balance at June 30, 2022 was \$413.5 million. The Loan Participation Program had a starting balance of \$454.8 million and an ending balance at June 30, 2022 of \$410.7 million. The primary reason for the decline are the substantial pay-offs in the loan portfolio.

Chair Pruhs requested an update within the next quarter of the projected cash flows for AIDEA for the next 10 years to 15 years. Mr. Weitzner indicated that he will work with the Chief Financial Officer to prepare information to present to the Board.

Mr. Weitzner highlighted that the portfolio is strong and well-managed, as shown with the delinquencies to outstandings. Chair Pruhs asked if the ongoing issue with delinquencies had been resolved. Mr. Weitzner explained that the particular issue is with Key Bank and all of the

loans have been resolved and are currently paying. He noted, however, that the situation is ongoing and the monthly updates will reflect the issues. Mr. Weitzner emphasized the work performed by Ms. Janssen and her team related to the improvement of reporting the information and identifying historical performance of AIDEA's high-quality portfolio.

Chair Pruhs asked if the Key Bank issue is a result of working with the national bank services that are out of state, rather than local in-state banking services. Mr. Weitzner agreed, and noted that all of the references have been to the servicing group on the east coast. Much time has been spent by Ms. Janssen and her team on the underlying servicing. New focus and changes in the service agreements will understand how participants will support the underlying servicing required on the participation.

Mr. Mitchell commented on the very low delinquency rates of .0024% in 2021 and .0005% in 2022. He asked for the definition of delinquency. Ms. Janssen explained that delinquency is greater than 30 days late. Mr. Weitzner indicated this is a very tight definition. Ms. Janssen reported that the 30 days late shown on the chart is a servicing issue of First National Bank Alaska regarding the funding of a loan. The funds have not yet been received.

Mr. Weitzner discussed that staff has increased the efficiency of the internal processes with regard to applying payments that accurately reflect the solid portfolio. This type of data and critical information is provided to AIDEA's capital providers and to credit rating agencies. Mr. Weitzner reiterated the efforts of staff and their achievements.

Mr. Mitchell commented that the State's credit rating highlights housing delinquency rates because they are typically favorable. He believes the information of consistent low delinquency rates would be beneficial as an indicator of the strength of the private sector economy in Alaska. There were no additional questions.

#### **7D. Board Resolution Report**

Mr. Weitzner discussed the Board Resolution Report linked to the agenda.

Chair Pruhs asked why two resolutions were enclosed in a box. Mr. Weitzner indicated those two resolutions are identified as predevelopment capital programs. There were no other questions.

#### **7E. Interior Energy Project - Quarterly Report to the Legislature**

Mr. Weitzner explained that the Quarterly Report to the Legislature for the Interior Energy Project is linked to the agenda. The report highlights the ongoing additions and conversions for new customers. Mr. Weitzner noted that Table 1 on page 13 shows that the actual conversions have exceeded the projections.

#### **7F. Next regularly scheduled AIDEA Board Meeting Wednesday, September 14, 2022**

**8. EXECUTIVE SESSION:** Occurred previously during the meeting.

#### **9. BOARD COMMENTS**

Mr. Eledge commented that moose season ends around September 25. He expressed appreciation for the good meeting.

Chair Pruhs thanked Mr. Weitzner and staff for the information presented today. He looks forward to the September meeting and noted the possibility of modifying the date.

## 10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 1:55 pm.



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Alan Weitzner, AIDEA Executive Director  
Secretary