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Alaska Industrial Development and Export Authority  
**BOARD MEETING MINUTES**  
December 9, 2009  
Anchorage, Alaska

**1. CALL TO ORDER**

Chairman Pat Galvin called the meeting of the Alaska Industrial Development and Export Authority to order on December 9, 2009 at 10:32 a.m.

**2. ROLL CALL: BOARD**

A quorum was established.

Members participating: Chairman Pat Galvin (Commissioner, Department of Revenue); Vice-Chair John Winther (Public Member); Mike Felix (Public Member).

Absent: Emil Notti (Commissioner, Department of Commerce, Community & Economic Development) and Commissioner Leo von Scheben (Department of Transportation & Public Facilities).

**3. AGENDA APPROVAL**

The agenda was approved as presented.

**4. ROLL CALL: STAFF, PUBLIC**

Staff present in Anchorage: Ted Leonard (AIDEA Executive Director); Steve Haagenon (AEA Executive Director); Chris Anderson (Deputy Director-Credit); Sara Fisher-Goad (Deputy Director-Operations); James Hemsath (Deputy Director-Development); Valorie Walker (Deputy Director-Finance); Karsten Rodvik (Project Manager-External Affairs); Mark Davis (Economic Development Officer); Mark Schimscheimer (Project Manager); Brenda Applegate (Controller); Bruce Chertkow (Loan Officer); Michele Hope (Procurement Manager); Chris Rutz (Procurement Manager); Brenda Fuglestad (Administrative Manager); and Sherrie Siverson (Administrative Assistant).

Others present in Anchorage: Brian Bjorkquist (Department of Law); Jan Sieberts (Washington Capital Management); Joe Briton and Gil Atzmon (Zazu Metals); Michael Martin, Jim McMillan and Meghan Clark (First National Bank); Mike Travis (Travis/Peterson); Mick McKay (Marsh Creek); Duane Dudley (Fairweather E&P Services); Rich Wilson and David Rohwer (Alaska Ratepayers); Mark Gardiner (Western Financial Group); Al Adams and David Case (Northwest Arctic Borough); Kevin Harper (Black & Veatch); and Tom Staudenmaier (Self), and Wesley Loy (Anchorage Daily News).

## 5. PUBLIC COMMENTS

David Case (Attorney for Northwest Arctic Borough) spoke in favor of Resolution G09-12, a resolution authorizing AIDEA's Executive Director to execute a Cost Reimbursement Agreement with the developer, ZaZu Metals Corporation, in the proposed Lik Deposit Transportation System (LDTs) in the Red Dog Mining district within the Northwest Arctic Borough.

## 6. PRIOR MINUTES

The minutes of November 9, 2009 were approved as presented.

## 7. OLD BUSINESS

There was no old business.

## 8. NEW BUSINESS

### 8A. Resolution No. G09-11, FY 2011 Dividend Recommendation

Mr. Leonard reviewed Resolution No. G09-11 stating staff has recommended paying a dividend to the state at the 50% level in the amount of \$23,423,000. The background of the dividend program is described in the memo to the board.

In response to questions from the Board, Ms. Walker said the total amount of dividends paid to date does not include this \$23 million. Last year's dividend was \$22,720,000 and AIDEA has been paying dividends to the state for approximately eight years. Fiscal Year 2011 dividend is based on audited annual report July 1, 2008 to June 30, 2009. The amounts are paid on a quarterly basis beginning in the first quarter of FY 2011.

Mr. Leonard stated staff recommended a dividend to the state of \$23,423,000.

**MOTION: Mr. Winther moved to approve Resolution No. G09-11. Seconded by Mr. Felix. A roll call vote was taken and the motion passed with Messrs. Galvin, Winther and Felix voting yea. Commissioners von Scheben and Notti absent.**

### 8B. Loan Resolution No. 09-05, 2000 East 88<sup>th</sup> LLC

Mr. Leonard stated AIDEA was asked to participate in a real estate acquisition loan with First National Bank Alaska. The total loan was \$3,450,000 with AIDEA's participation \$3,105,000. Chris Anderson reported that the request from FNBA is 90% participation by AIDEA and First National's term on their participating interest will be 15 years and AIDEA's would be 25 years, fixed rate. The borrowing entity is 2000 East 88<sup>th</sup> LLC; the guarantors are Kaktovik Inupiat Corporation, Marsh Creek LLC, Fairweather Exploration & Production Services and Jessie Mohrbacher. Each will guarantee 100%; additionally AIDEA will have an 80% guarantee by the office of Indian Energy & Economic Development, formerly BIA. AIDEA will take a first deed of trust on the 35,100 square foot office/warehouse building which was appraised at \$4.6 million. Marsh Creek LLC will occupy the entire building; the initial lease has a five-year term; in debt service coverage on the contract rent is 1.51 to 1 and they will have two options to extend the

lease for five years each. The building is currently in AIDEA's portfolio, the borrower is EIO LLC (Jessie Mohrbacher, Sherron Perry and Bill Penrose). The loan originated in January 2004 and has been current the entire time on AIDEA's books and the loan request will be paying that loan off in full. 2000 East 88<sup>th</sup> LLC was organized in October 2009 and its members consist of Kaktovik Inupiat Corporation (51% ownership) and Marsh Creek LLC (49% ownership). That is the ownership of the borrowing entity. For Marsh Creek you have KIC (51% ownership), Fairweather Exploration (49% ownership) and Mohrbacher, President and CEO of Fairweather Production Services has a controlling interest in Fairweather. KIC is the native village corporation of Kaktovik. Staff recommends the loan which would be subject to a signed lease in a form acceptable to AIDEA between the borrower and Marsh Creek LLC. AIDEA would be obtaining an 80% guarantee of the office of Indian Energy & Economic Development.

Present to answer questions were Mick McCabe the manager of the building and CEO of Marsh Creek LLC and acting General Manager of KIC and Duane Dudley, CFO of Fairweather E&P. Also present were Jim McMillan and Mike Martin from FNBA.

Mr. Winther stated he may have a conflict in this matter due to his business, Ultrastar Exploration's, relationship with Fairweather. Ultrastar provided well drilling services to Fairweather. Mr. Bjorkquist stated that by Mr. Winther's declaring this conflict on record he has satisfied the notice requirement. Legally he did not think Mr. Winther had a conflict of interest, and if he felt uncomfortable with it and chose not to participate then there would not be a quorum at this point. Mr. Winther stated he felt comfortable with it. Chair's role as ethics supervisor determines whether or not there is a conflict, then the board would agree or disagree on that determination. Chairman Galvin stated that given that the relationship is primarily that of purchasing services he did not see it as a conflict.

**MOTION: Mr. Winther moved to approve Resolution L09-05. Seconded by Mr. Felix. A roll call vote was taken and the motion passed with Messrs. Galvin, Winther and Felix voting yea. Commissioner von Scheben and Notti absent.**

#### **7C. Resolution G09-12, Zazu Metals Corporation**

Mr. Leonard stated Resolution No. G09-12 is for the reimbursement agreement for a pre-feasibility analysis of a proposed Lik deposit mining project in the Northwest Arctic Borough.

Mr. Hemsath said that the Lik deposit is a zinc, lead and silver deposit located approximately 22 miles from the Red Dog Mine. Zazu Metals Corporation (Zazu) has requested AIDEA's participation in the proposed Lik Deposit Transportation System (LDTS), which is an extension of the DeLong Transportation System (DMTS). LDTS would include: a road to the Lik deposit, potential expansion of the port facilities and an additional ore concentrate storage facility. The reimbursement agreement would allow AIDEA to study, evaluate, prepare a preliminary finance plan, and conduct preliminary due diligence of the LDTS project and related improvements to the existing DMTS.

Mr. Leonard stated there is potential for the Northwest Arctic Borough to be involved in financing the extension.

Mr. Hemsath stated the reason it is a phased due diligence study is that the first phase is to go into detail specifically looking for mine development and a business plan of what's there and to further define the needs for the system. AIDEA will also be looking at potential financing opportunities to work in partnership with the Northwest Arctic Borough as a partner owner of the LDTS.

Mr. Winther asked for clarification on the subsequent reimbursement agreements. Mr. Hemsath stated it was contingent upon the results of the first agreement. The due-diligence will be done through term contractors by our staff.

Mr. Winther asked what the timeframe would be for getting the first phase finished. Mr. Hemsath replied that it would most likely be a three-month process.

Mr. Atzmon of Zazu said the Lik property is part of the same larger geologic group that the Red Dog and surrounding deposits belong. It has a resource of about 27 to 30 million tons creating an excess of 10 percent combined metals into lead, making it one of the larger and higher grade undeveloped lead/zinc deposits in the world. Zazu hopes to have a preliminary scoping study available by the end of December 2009. He confirmed the first phase may take up to three months and they will make unilateral decisions.

Zinc is currently priced at \$1.06-\$1.07 per pound.

Chairman Galvin reminded the board that when they were given the briefing on the DeLong Mountain project the Lik deposit has always been identified as a potential development source and target area. He stated he was encouraged to see the advancement.

Regarding the potential partnership with the Northwest Arctic Borough, it's currently contemplated that they would either finance a portion of the road or if they can, the road itself. They should be ready to start discussion on the issues by April 2010.

**MOTION: Mr. Felix moved to approve Resolution G09-12. Seconded by Mr. Winther. A roll call vote was taken and the motion passed with Messrs. Galvin, Winther and Felix voting yea. Commissioner von Scheben and Notti absent.**

#### **7D. Strategic Management Plan Update**

Mr. Leonard stated the Plan has been in the process for over a year and based on direction of the Board staff has come up with a final draft and is in the process of starting the implementation phase.

Mark Gardiner presented an overview of the Plan with Pat Clancy joining by phone. The appendices are sections that have more depth on the environmental scan, which was an outreach to the public and private members of the communities to get feedback on AIDEA. The swath detailed Alaska and AIDEA strengths, weaknesses, and best practices review looked at economic development financing entities around the country to find best practices.

When the Board reviewed the mission, it was changed to focus on economic development finance resulting in four initiatives:

1. Enhance AIDEA's efficiency and effectiveness.
2. Diversify and grow AIDEA's assets to support economic development.
3. Improve AIDEA's existing programs and add targeted new economic development financing.
4. Expand the deployment and impact of AIDEA's economic development financing.

The intake process for a private entity looking for financing has been reengineered utilizing the Economic Development Officer. An AIDEA eligible project will continue through the process, or be referred to another agency.

Part of the Strategic Plan implementation process during the 09-10 fiscal years will be to finalize and plan for implementation of any additional metrics adopted by AIDEA.

Compared to other entities of this nature AIDEA has a very strong balance sheet. Part of the objective is to keep it strong, but to also use that balance sheet to expand the capacity to do projects and other financings.

AIDEA will be looking more closely at the commercial finance programs, both history and how we link what we do in commercial finance to economic development and providing potential incentive rates for projects that meet a higher level of economic development objectives.

For the project finance side, we are thinking of expanding the role and the resources for AIDEA to do what is effectively investment banking. Expanding the outreach for AIDEA's programs, getting more projects in the "funnel" and figuring out what the targets would be i.e, energy, fisheries, tourism, etc.

Mr. Winther asked if there would be any internal reorganization to implement the Strategic Plan. He requested an organizational chart.

Mr. Leonard said AIDEA has two strong programs in project and commercial development linking the two on the organizational structures. The Economic Development Officer will be in charge of moving everything through the intake process. The business development officer will work in unison with the Economic Development Officer through outreach to the communities, the native corporations, etc.

Discussions ensued regarding balance sheet management, dividend percentages, future projects, customer service, AIDEA exposure, AIDEA bonding capacity, and working with the Legislature. WFI's role from hereon will be to implement steps already identified and to keep the Board apprised of progress. It was suggested that the first of the four initiatives "Enhance AIDEA's efficiency and effectiveness," could be better worded. This will be worked on.

**[At this point New Business Items E (Healy Clean Coal Project Update) and F (Legislation Update) Executive Session Items were moved to after Director's Comments on the Agenda, at the discretion of the Chair. There were no objections.]**

## **9. DIRECTOR COMMENTS**

Mr. Leonard stated that AIDEA is planning to present a resolution to an amendment to a partnership agreement with the Polaris Fund in January that would remove the requirement of performing an annual audit.

Ms. Walker highlighted the Polaris Fund investment: It was created in 1990 as a venture capital partnership. AIDEA would invest up to \$6 million (which we have received back) in a venture capital partnership which had a desired \$30 million total. It was to invest in, but was not limited to the State of Alaska. Polaris Fund was chosen over three entities that bid. It was an original 10-year life with two options to renew up to 12 years. That period of time ended in 2002, the beginning of the "wind-down" mode. Because the idea was to divest the limited partnership assets AIDEA determined it would be cost prohibitive to find a new manager of those investments so we extended the life of the partnership agreement, increased the limited partners percentage in order to have them continue to manage the investments.

AIDEA is the only limited partner at 50% partnership. The general partner is Polaris Fund Partners. The assets of the investments are approximately \$1.2 million in privately held companies and \$400,000 in cash and investments. Jim Yarmon is a local partner but won't be available in January, so this item would have to be placed on the February agenda.

Chair Galvin stated he is looking forward to speaking with Mr. Yarmon and discussing with staff what the long term plan is with this relationship and what AIDEA's purpose is.

### **AIDEA Building Remodel**

Mr. Leonard presented pictures and floor plans of proposals on remodeling and refurbishing of the building. He reiterated the remodel/refurbish is to make the building more useable and to replace the HVAC system.

Mr. Rutz stated as a follow-up to the \$500,000 approved for improvements in the building about \$100,000 has been spent, resulting in four offices, stair improvements, safety issue improvements, and an additional analysis on the building by hiring a space planner to recommend configuration improvements. Energy efficiency and the accommodation of additional staff is a priority. One major concept is relocating the board room to the first floor with another conference room and putting offices in the current board room space to consolidate AIDEA staff to the third floor, and replace old HVAC systems. The additional amount needed will be about \$1 million to proceed. We have looked at all options; i.e., no remodeling, lease space which runs about \$3-\$4 per square foot. Building would cost approximately about \$2.50 per square foot plus site costs would be half as much as the building cost. We believe the investment of the \$1 million would be best in creating efficiency as well as reducing operating costs in the long run. It's costing about \$240-\$260,000/year which equates to less than \$1/foot, not including depreciation. In January there will be a complete presentation with a cost analysis.

Mr. Leonard requested the divestiture policy be revisited at the January board meeting. Chair Galvin agreed.

Mr. Leonard stated AIDEA was asked to testify last week in a house CRA legislative hearing on economic development in state government. AIDEA was invited back during the legislative session for further dialog on that issue as they look at i.e., what DCCED's role should be for the state and how to better perform economic development on the state level.

AIDEA has been working with Northwest Arctic Borough staff. Mr. Hemsath met with them and staff is in the process of trying to get a follow-up to that meeting. Teck had around \$900 million in profit last year and they paid NANA and other native corporations approximately \$212 million in royalties and another \$110 million in service fees to their joint ventures. They are possibly looking at a severance tax. AIDEA has been invited to a NWAB strategy session on December 15, 2009.

Next Meeting January 20, 2009.

A short discussion regarding the next meeting ensued. There could possibly be a short teleconference on January 20.

#### **EXECUTIVE SESSION**

**MOTION: Mr. Felix moved to go into executive session to discuss Legislative Updates and Healy Clean Coal Project update. Seconded by Mr. Winther. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Messrs. Galvin, Winther and Felix voting yea. Commissioners von Scheben and Notti absent.**

#### **EXECUTIVE SESSION – 12:20 p.m.**

The Board reconvened its meeting at 1:50 p.m.

Roll call was taken and a quorum was established. Chair Galvin advised that the Board had not taken any formal action on the matters discussed while in Executive Session.

#### **11. BOARD COMMENTS**

There were no board comments.

#### **12. ADJOURNMENT**

There being no further business of the board, the meeting was adjourned at 2:33 p.m.

  
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Ted Leonard, Executive Director/Secretary  
Alaska Industrial Development and Export Authority