
**Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
January 15, 2009
Anchorage, Alaska**

1. CALL TO ORDER

Chairman Pat Galvin called the meeting of the Alaska Industrial Development and Export Authority to order on January 15, 2009 at 10:47 a.m.

2. BOARD OF DIRECTORS ROLL CALL

A quorum was established.

Members present in Anchorage: Chairman Pat Galvin (Commissioner, Department of Revenue); Vice Chair John Winther (Public Member); John Kelsey (Public Member); Commissioner Emil Notti (Department of Commerce, Community & Economic Development); and Commissioner Leo von Scheben (Department of Transportation & Public Facilities).

Chairman Galvin confirmed that public notice requirements were met.

3. AGENDA APPROVAL

The agenda was approved as presented.

4. PUBLIC ROLL CALL

Staff present in Anchorage: Ted Leonard (AIDEA Executive Director); Chris Anderson (Deputy Director-Credit); Mike Harper (Deputy Director-Rural Energy); James Hemsath (Deputy Director-Development); Valorie Walker (Deputy Director-Finance); Bruce Chertkow (Loan Officer); Karl Reiche (Projects Development Manager); Karsten Rodvik (Project Manager); Chris Rutz (Procurement Manager); Mark Schimscheimer (Project Manager); Bruce Tiedeman (Coordinator-Rural Community Outreach); Brenda Fuglestad (Administrative Manager); Sherrie M. Siverson (Administrative Assistant); and Steve Haagenon (AEA Executive Director).

Others present in Anchorage: Brian Bjorkquist (Department of Law); Pita Benz (Wells Fargo Bank); Vicki Clark (Trustees for Alaska); Mark Gardiner (Western Financial Group); Chris Hall (Sierra Club Alaska); Alli Harvey (Alaska Center for the Environment); Tim Leach (MEA Ratepayers Alliance); Jan Sieberts (Washington Capital Management); Bardon Simons (Pacific Alaska Leasing); and Chris Teich (NANA Development Corporation).

5. PUBLIC COMMENTS

Tim Leach, Matanuska Electric Association (MEA) Ratepayers Alliance, spoke briefly about concerns raised around the Healy Coal Plant 2. The two broad areas of concern on the Healy Coal Plant 2 are compliance issues, specifically around permits and what may happen with carbon cap and trade at the federal level and how that would impact this plant as well as

mercury regulation. For those compliance issues it seems like there are uncertain costs attached to emissions of mercury and CO2 at this time. Another financial liability concern would be around the volatility of pricing of fossil fuels and specifically to coal for the feedstock. One of the main issues as a ratepayer and as a taxpayer that comes around is the impact that this plant may have on a potential bullet-line for natural gas. The 100 MW plant MEA was proposing would decrease demand for natural gas and negatively impact the economics of the bullet line which is a major concern for all taxpayers in Southcentral that would be accessing that gas through the natural gas bullet line. He asked that any analysis that has been done for Healy Coal Plant 2 in regards to its impact on the bullet lines be made public.

Chris Hall, Sierra Club Alaska, stated the Healy Coal Plant 2 has been a black hole for public money. There is \$300 million already invested in it and now it's going to take another \$80 million to get the plant even remotely functional. It's probably time to call this plant a failed plant and keep it mothballed.

Vicki Clark, Legal Director, Trustees for Alaska, stated AIDEA received a letter from us at the beginning of this month on behalf of the HEA Members Forum, Sierra Club, and the Northern Alaska Environmental Center, who all have significant issues with the restart of the Healy Coal Plant. There are new issues and financial issues that concern many folks. The supposed clean coal technology will be retained in the facility that we already know is a failure. The issues of carbon dioxide emissions and mercury emissions weren't even in the mix the last time around. The permitting for this plant is going to be significant. The EIS is going to be outdated and there's going to be a lot more analysis that needs to be done, not only from the environmental standpoint, but from the public health standpoint. Alaska is not the only place putting more carbon emissions in the air, but we're the place that is experiencing the impacts of global warming most heavily and that has not been considered in this kind of a project or in any kind of a project moving forward. This is a very expensive project financially, environmentally, and from a public health standpoint, and there are huge concerns. Continue to consider the ramifications to the taxpayers of Alaska in moving forward with a project like this.

6. PRIOR MINUTES – December 11, 2008

The December 11, 2008, minutes were approved as presented.

7. OLD BUSINESS

There was no old business.

8. NEW BUSINESS

8A. Loan Resolution No. L09-01 UMED, LLC

Ms. Anderson reviewed Loan Resolution No. L09-01 stating the borrower is UMED, LLC. The guarantors are NANA Development Corporation, Inc. and NANA Regional Corporation, Inc. It is for long-term financing for a 159 guest room Springhill Suites in the University Lake area, managed by NANA Management Services, LLC. Target clientele for the hotel are persons and firms utilizing facilities in the vicinity that include Alaska Native Hospital, Providence Medical Center, University of Alaska, and Alaska Pacific University. Wells Fargo Bank requests AIDEA participate \$12,600,000 in a gross loan amount of \$14 million, a 25-year term based on a three-year variable rate. The hotel will be on 4.20 acres, a lease-hold property from Alaska Pacific

University. An initial 50-year ground lease includes an option to extend the lease for three consecutive 10-year periods. The Springhill franchise is for 20 years.

Howard & Wing appraised the property at \$21.9 million, a 64% loan-to-value. An environmental study done by Dowl showed no significant potential environmental impairment to the property. An estimated 50-100 short-term construction jobs and 100 permanent employment positions will be created as a result of project completion.

Staff recommended approval subject to conditions stated in the memorandum.

Resolution L09-01 was amended to reflect the correct amount of the loan requested. Correct amount is \$12,650,000.

Discussions ensued regarding the percentage of tourism dollars in the AIDEA portfolio. AIDEA's March 2008 hotel study reported that the hotel industry is still a growing segment and was not yet oversaturated.

Commissioner Notti noted a possible ethics conflict as he is on the Wells Fargo Advisory Board. Chairman Galvin stated there is no conflict as Commissioner Notti has no fiduciary responsibilities to Wells Fargo, but does have fiduciary responsibilities to AIDEA.

MOTION: Mr. Kelsey moved to approve Resolution No. L09-01 as amended. Seconded by Commissioner Notti. There being no discussion, the question was called. A roll call vote was taken and the motion passed 5-0.

AYES: Kelsey, Notti, von Scheben, Winther, Galvin

NAYS: None

8B. Loan Resolution No. L09-02 David Faulk, dba Pacific Alaska Leasing Co.

Ms. Anderson reviewed Resolution No. L09-02 stating it is a loan participation request for an office warehouse project. Wells Fargo Bank is requesting AIDEA's participation at 90% of a \$6,000,000 loan for the principle amount of \$5,400,000. The borrower is David G. Faulk dba Pacific Alaska Leasing Co. and the guarantor is Bonnie Faulk. This is for term financing for a build-to-suit office warehouse that will be tenanted by Baker Hughes Oilfield Operations Inc. Baker Hughes will lease for five years with two five-year options to renew. The 47,750 square foot office warehouse is located at 795 East 94th south of Dimond off King Street. Wells Fargo's participating interest is a term of 10 years and AIDEA's term is 20 years.

The borrowing entity has multiple loans participated with AIDEA. All loans are current and have paid as agreed. Adding the request to the existing outstanding loans brings the overall exposure to Mr. Faulk and his company to \$9,016,453. A self-contained appraisal performed by Howard & Wing was \$8.9 million on an estimated completion date of February 1, 2009. Loan to value is 67%.

An environmental study by Hart Crowser, Inc. indicated detectable levels of hydrocarbons, which are below AEDC cleanup levels. The site has been fully developed and no environmental problems were discovered. Two jobs will be created by the project. Approval of the loan will increase portfolio diversification in the warehouse office industry from 14.28% to 15.48% and for loans participated within the Anchorage region from 22.48% to 24.49%.

Staff recommended approval of the loan subject to conditions stated in the memorandum.

MOTION: Mr. Winther moved to approve Resolution No. L09-02. Seconded by Commissioner von Scheben. There being no discussion, the question was called. A roll call vote was taken and the motion passed 5-0.

AYES: Kelsey, Notti, von Scheben, Winther, Galvin
NAYS: None

8C. Resolution No. G09-01 Building Renovation and Major Repairs and Maintenance

Mr. Leonard reviewed Resolution No. G09-01 stating that AIDEA is requesting the Board's approval to set up a capital budget of \$500,000 to fund renovations, major repairs and maintenance on the AIDEA owned building and property. The building was originally capitalized at a cost of \$3.3 million. The improvements are required for safety, efficiency, and to protect the investment in the property. Funds include \$200,000 for energy efficiency, heating, ventilation, and air conditioning control systems; \$100,000 for safety and code compliance; and \$200,000 for building renovations.

Mr. Rutz stated that over the past four years small projects were funded through the general operating budget. Due to an increase in energy costs (electricity and gas) and recent equipment failures, estimates for projects exceeded what is available through the operating budget. A lift station failed causing flooding in the basement and a sinkhole developed in the north parking lot. The ground around the sinkhole needs to be examined to determine if it can be filled in or if it will require more extensive repair. Ongoing repairs are costly and AIDEA may be able to achieve energy savings by installing up-to-date building control systems. AIDEA is looking at improving energy efficiency by replacing lighting on the first and second floors, improving power control by replacing DDC and HVAC systems. There are also ongoing security issues in the north parking lot and security cameras are being considered. These projects will improve working areas and safety for employees and reduce energy costs.

MOTION: Commissioner von Scheben moved to approve Resolution No. G09-01. Seconded by Mr. Winther. There being no discussion, the question was called. A roll call vote was taken and the motion passed 5-0.

AYES: Kelsey, Notti, von Scheben, Winther, Galvin
NAYS: None

9. EXECUTIVE DIRECTOR COMMENTS

Mr. Leonard referred the board to their packets for the following items:

- Loan Activity
- Loan Delinquencies
- Project Updates and Discussions

Ms. Anderson added that AIDEA's delinquency ratio is good. A large percentage of the delinquency ratio is from the Dutch Harbor Factory Trawler bankruptcy; Factory Trawler is in the process of refinancing.

Projects Updates

Mr. Hemsath shared copies of an economic impact analysis from the Department of Commerce demonstrating the positive impact the Ketchikan Shipyard project has had in the Ketchikan area.

A 2008 photo of the Snettisham transmission line and towers was distributed. On Monday, January 12, 2009, an avalanche took out tower 3.5, grounded the system, and separated Snettisham from Juneau. Juneau went on emergency diesel backup power. Avalanche evaluation and mitigation was in process prior to this event. Snow and rain have prevented the helicopters from getting to the higher elevation where this slab was located. It is estimated that repairs may take 4-to-6 weeks.

Discussions ensued regarding the differences between the two events and possible solutions to ensure safety and minimize risk. A long-term solution is 18 months to two years out. It is estimated the Lake Dorothy plant will begin producing power in late spring or fall and during the winter season that will accommodate approximately 40% of the power that is currently being used. The impact of winter avalanches will be reduced as power loss is mitigated by the Lake Dorothy Plant.

Mr. Hemsath stated that estimated costs of repair are unknown at this time; however a request for a loan to cover this capital cost is anticipated.

Strategic Development Plan

Mr. Hemsath said AIDEA contracted with Western Financial Group (WFG) to develop a strategic plan last fall. WFG will assist in developing a strategic plan to guide activities for the near future in terms of where AIDEA might want to pursue projects and address the portfolio.

A public workshop was held December 10, 2008, which was attended by approximately 40 stakeholders from various industries around the state including government, economic development, ARDORs and the University. Key lenders from the loan participation program were contacted as part the survey process. AIDEA staff met with the consultants January 11, 2009.

Mr. Gardiner outlined the planning process beginning with an understanding of the mission and vision, moving on to an environmental scan, strategy formulation, implementation, and evaluation control.

Mr. Hemsath said that a board work session will be scheduled for March where Western Financial Group, AIDEA staff and board members will work together on the strategic development plan.

Chairman Galvin asked to preface that work session with an overview of AIDEA as foundational information for the board. What is AIDEA? How is AIDEA structured? What are the AIDEA programs? How are AIDEA portfolio investments structured and how are reserves invested?

In response to questions from the Board, Mr. Gardiner and Mr. Hemsath explained inelastic state revenue. In contrast with most states, the state budget is not necessarily a beneficiary of economic development activities. It limits potential incentives. If a company wants to do

business in a specific state, they may receive a tax break or tax enhancement; without having a tax structure in Alaska, we do not have the ability to do the work that many other economic development states do.

A portion of the plan is to find out what the business portfolio could be in terms of the projects AIDEA should be looking for in different industry sectors related to Alaska, U.S. and the world economy.

DeLong Mountain Transportation System (DMTS) Red Dog Mine.

Mark Schimscheimer presented an overview of DMTS. Located in the Brooks Range, Red Dog is the largest and richest zinc mine in the world with the lowest production costs. The Red Dog Mine, approximately 50 miles inland, is a NANA resource operated by Teck, formerly Teck Cominco.

AIDEA owns DMTS, which includes the 52-mile road, two large concentrate storage buildings, a 15 million gallon fuel storage area, a man camp, the offshore shiploader located at the port site. Miscellaneous assets at the port site include surge bins, conveyors, and electrical generation lay-down yards. Teck contractually operates and maintains the road for AIDEA.

Three main deposits are part of the current Teck mine plan through 2031. Red Dog main pit will play out in a few years. The Aqqaluk deposit is a significant deposit of high-grade zinc. The Qanaiyaq deposit is smaller, but high-grade deposit. Three deposits in the immediate area that are not in the current mine plan are Paalaaq, Anarraaq, and Lik/SuLik. There is potential for long-term development in the Red Dog region. There are approximately 25-30 shipments per year within a 100-120 day loading period. Zinc and lead are the two concentrates that are shipped.

Discussions ensued regarding the original project financing, bonds and 50-year lease payments. As of June 30, 2008, the book value based on minimum lease payments was approximately \$242 million; the principle balance on the loan. In 2007, zinc prices were oscillating around one dollar, but AIDEA's evaluation was based on zinc prices below fifty cents. Minimum lease payments are not based on the price of zinc. Northwest Arctic Borough's offer to purchase DMTS was \$106 million. Mr. Hemsath discussed outstanding EPA recommended options for DMTS and a potential deep-water port expansion.

Retention and Divestiture Policy Update

Mr. Leonard gave an overview on the progress on retention, divestiture and portfolio analysis. The concept paper distributed to the Board specifically addresses AIDEA owned and operated development projects. There are two categories of projects: a performing project and a non-performing project. It is envisioned that project analysis would be performed every two years and portfolio analysis would be performed on a continuing basis. Policy review will be part of an ongoing update of the strategic planning process.

Discussions ensued regarding how a determination would be reached to retain or divest a project.

Chairman Galvin stated that AIDEA currently has six projects: Red Dog (DMTS), FedEx Hangar, Skagway Ore Terminal, Snettisham Hydroelectric, Ketchikan Shipyard, and the Healy Clean Coal Plant.

As an example, AIDEA may actually put itself in a position to be a catalyst for other projects, but it may put itself in a better position to be a catalyst for other projects by retaining Red Dog because AIDEA is generating the revenue and the bond rating from that project rather than by divesting itself of that project. But, when you have other assets that are not of the same substance as Red Dog, it creates the question of does our policy of Red Dog end up overly influencing our retention of the other assets just because we are slow to make that decision.

Mr. Winther commented that AIDEA currently needs Red Dog revenues and new project development is limited because legislative approval is required to issue bonds. If AIDEA could get what it needs without going to the Legislature, then future decisions wouldn't be influenced by Red Dog.

Healy Clean Coal Project

Mr. Cole stated that he had expressed some equivocation in response to a statement of whether he supported the Healy Clean Coal agreement. He said that he is comfortable with the provisions of the agreement. He stated that after speaking with counsel for GVEA we might be able to work out agreeable provisions for the amendment of the pre-trial order to take care of this February 15, 2009 date.

10. BOARD COMMENTS

Next meeting date – February 26, 2009.

11. ADJOURNMENT

There being no objection and no further business of the Board, the meeting was adjourned at 1:04 p.m.



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