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

1. CALL TO ORDER

Vice-Chair John Winther called the meeting of the Alaska Industrial Development and Export Authority to order on November 9, 2009 at 10:31 a.m.

2. ROLL CALL: BOARD

A quorum was established.

Members participating: Vice-Chair John Winther (Public Member); Mike Felix (Public Member); Commissioner Emil Notti (Department of Commerce, Community & Economic Development); and Commissioner Leo von Scheben (Department of Transportation & Public Facilities).

Absent: Chairman Pat Galvin (Commissioner, Department of Revenue).

3. AGENDA APPROVAL

Mr. Leonard asked that under Item 8 New Business Resolution G09-10 be and to add an Executive Session regarding Healy Clean Coal Plant Project.

Mr. Felix made a motion to approve the agenda as amended and Commissioner von Scheben seconded it. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Messrs. Felix, Notti, von Scheben, and Winther voting yea.

The agenda was approved as amended.

4. ROLL CALL: STAFF, PUBLIC

Staff present in Anchorage: Ted Leonard (AIDEA 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 Schimscheimer (Project Manager); Brenda Fuglestad (Administrative Manager); and Sherrie Siverson (Administrative Assistant).

Others present in Anchorage: Mike Mitchell (Department of Law); Tim Bradner (Alaska Journal of Commerce); Jan Sieberts (Washington Capital Management); and Tonya Gamble (Hands Off Touchless Car Wash Eagle River).

Joined the meeting in progress: Brenda Applegate (AIDEA Controller); Linda MacMillan (Accountant); Joe Britton (Zazu) and Corinne Fiedler (KPMG).

5: PUBLIC COMMENTS

Summary of public comments – to listen to full meeting go to AIDEA's website.

Tonya Gamble (Hands Off Touchless Car Wash, Eagle River). Comments made by Ms. Gamble are incorporated as an attachment to the minutes. A discussion ensued. The board requested a copy of her statement to review and asked AIDEA staff to respond to her questions.

6. PRIOR MINUTES

The minutes of August 13, August 24, and October 12, 2009 were approved as presented.

7. OLD BUSINESS

There was no old business.

8. NEW BUSINESS

EXECUTIVE SESSION

MOTION: Mr. Felix moved to go into executive session to discuss Healy Clean Coal Project litigation and negotiations, and the Asset Purchase Sale Agreement. Seconded by Commissioner Notti. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Messrs. Felix, Notti, von Scheben, and Winther voting yea.

EXECUTIVE SESSION – 10:44 a.m.

The Board reconvened its meeting at 11:15 a.m.

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

9. DIRECTOR COMMENTS

Mr. Leonard stated that AIDEA is continuing to work on HR issues. Milliman consultants are conducting a study that includes review and update of HR policies and procedures.

The Strategic Economic Development Plan has been revised based on comments received from the board. The final draft report will be mailed to board members by the end of this week. Staff continues to work with the consultants on an implementation plan after board approval. Additional board comments are welcome. The plan will be brought before the board in December or January.

The operating budget has been submitted to OMB.

Mr. Hemsath met with Northwest Arctic Borough (NWAB) representatives in Kotzebue and presented additional information on cash flows and the Teck contract. A transcript of that

meeting will be made available to board members. NWAB will be in Anchorage during the week of November 18, 2009. NANA, Teck and NWAB assembly members have invited AIDEA staff to attend a reception at the Conoco Building on Thursday, November 19. Mr. Leonard will provide interested board members with the meeting information. AIDEA staff are scheduled to meet with NWAB representatives on Friday, November 20.

Included in the board packets are Loan Activity and Delinquency Reports and a memo regarding FY09 Loan Charge Offs and Oreo Write Downs. There were no Oreo Write Downs.

In response to a question from the Board, Ms. Anderson stated that Credit is watching a loan that has been in and out of delinquency and October results will close in mid-November.

Mr. Hemsath provided an update on AIDEA projects.

The Kasaan Shiploader Project was brought to the board a year ago. A resolution was passed authorizing the Executive Director to execute a cost reimbursement agreement to conduct a due diligence review and prepare a finance plan.

During 2008 iron ore prices dropped and there were issues with some designs. Since that time Eagle United has acquired new financing, partnered with Sea Lion Corporation and continues to work with DEC on modifications to the shiploader design.

On Thursday, November 5, 2009, Mr. Hemsath received a telephone call from Mr. Richard Peterson, Tribal President of the Organized Village of Kasaan (OVK), who said they had some concerns and were sending a letter. The letter, dated October 27, 2009, was sent via email on November 5, 2009. They have environmental concerns (noise, traffic, and clean water) and concerns about the fish habitat, which are very serious.

Mr. Peterson was concerned that the board was moving ahead to approve the project. Mr. Hemsath discussed the process with Mr. Peterson and assured him that the board would not move ahead without coordination and approval of the key people.

During the discussion we decided to pull this from the agenda until we can better understand their concerns. Staff hopes to visit Kasaan in early December to meet with the owner of Eagle Minerals and possibly a representative from Sea Lion. We want to hear what their concerns are and determine if they are discussable.

OVK sent a letter last year stating that, pending environmental issues and permitting, they were in support of the project. We also received letters of support from Kavalco and Sealaska.

In response to questions from the board, Mr. Hemsath said that the developer has stopped all work causing at least a minimum six-month delay on the project. The developer will have to go back to his partners and explain the impact of a six-month delay, assuming that we are able to assure OVK that their concerns will be addressed, and determine if the project is still viable. Mr. Hemsath said the land is owned in part by OVK and by Sealaska and you must cross village land to reach the mine.

Commissioner Notti said he believes Sealaska has subsurface rights and OVK has surface rights.

Mr. Leonard said that AIDEA would not do anything that would go against the community. The \$85,000 request was for a due diligence study to determine whether the project would pay for its funding and be economically feasible, but should not precede meetings with the participants. It was a joint decision with the developer to ask that this resolution be pulled at this time.

Snettisham

Mr. Hemsath discussed the Snettisham avalanche incidents that occurred last winter. AEL&P did not replace the lost tower, but spanned the distance and added additional guy supports at either end. He distributed photographs of the diverter that was constructed around a key risk tower. AEL&P has invested approximately \$2M in the construction of the diverter. They are ready for winter and continue to evaluate their bombing schedule. He added that the Lake Dorothy Project is online so there should be no disruption in service if the transmission line goes down. The absence of trees in the old avalanche area may cause snow to shed more quickly causing a series of smaller avalanches. AEL&P continues to evaluate risk areas.

Skagway Ore Terminal

The TIGER grant application process is ongoing. The Department of Transportation and AARA will make a decision about grant awards in January 2010. Commissioner von Scheben said that approximately 1500 applications were submitted for Tiger grants, 30 in Alaska. Mr. Hemsath said Skagway and Ketchikan might have an advantage because they were designated as rural, not urban communities.

Mr. Hemsath stated they have received an inquiry about storing lead in the Skagway Ore Terminal. The current facility is not set up to store lead. R&M Consultants and Karl Reiche, Project Manager, will visit Vancouver, B.C. on November 18 to look at a terminal and how they handle lead and what might be done in Skagway to accommodate lead shipments. Staff will also evaluate if future lead shipments would be feasible.

Ketchikan Shipyard

They are in the same phase of their Tiger grant application. On December 1, 2009 the shipyard will launch a Chevron fuel barge they constructed for Vancouver. Mr. Leonard asked board members to contact AIDEA staff if they are interested in attending.

Zazu Mining Corporation proposal - Lik Deposit

Mr. Hemsath added that Zazu Mining Corporation has contacted AIDEA during the past year regarding a potential project in the Northwest Arctic Borough. The Lik Deposit is about twenty miles west of Red Dog Mine. AIDEA's participation would involve a road extension to that mine site and use and possible modification of the port facilities. The cost is approximately \$100-\$200 million dollars. There is approximately 25 million tons of ore in the area.

We are looking at the economic information Zazu has provided. This is such a large project it will be presented to the board in phases. We hope to prepare a resolution for a cost reimbursement agreement at the December board meeting. We informed Zazu that they need to contact the Northwest Arctic Borough and the Mayor to determine what would be required to obtain Borough approval of the project. Like other projects requiring environmental approval, we will not proceed with any agreements unless we know the NWAB is interested in the project.

Continuing Education Calendar

Mr. Leonard asked board members to contact staff if they are interested in attending a conference.

The next board meeting is Wednesday, December 9, 2009.

10. FINANCIAL STATEMENTS

Ms. Corinne Fiedler, Audit Manager, KPMG, reviewed the Letter to the AIDEA Board. Mr. Leonard thanked KPMG and AIDEA finance staff for getting the financial statements completed so quickly.

Ms. Corinne Fiedler, Audit Manager, KPMG, reviewed the Letter to the AIDEA Board, Item 10 in the board packet.

KPMG responsibilities are to form an opinion on the financial statements. The financial statements themselves are the responsibility of the management group at AIDEA. KPMG looks at all of the information contained within the audited financials.

The significant accounting policies used by the Authority are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009. We noted no transactions entered into by the Authority during the year that were both significant and unusual. We noted no transactions entered into by the authority for which there is lack of authoritative guidance or consensus.

Regarding the Authority's Healy Clean Coal Project, we have evaluated key factors and assumptions used in developing management's assessment including possible management bias, in determining that the valuation of the Healy Project is reasonable in relation to the financial statements taken as a whole.

The allowance for loan losses represent's management's judgment as to the amount required to absorb potential losses in the loan portfolio. We agreed with management that the allowance is reasonable in relation to the financial statements taken as a whole.

In connection with our audit of the Authority's financial statements, we have not identified any significant financial misstatements that have not been corrected in the Authority's books and records as of and for the year ended June 30, 2009, and have communicated that finding to management.

There were no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our auditors' report on the Authority's financial statements.

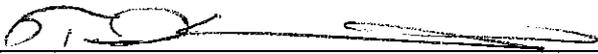
She said that everything went very smoothly and staff was very responsive to questions and requests made of them.

11. BOARD COMMENTS

Mr. Winther thanked the staff for all their hard work.

12. ADJOURNMENT

There being no further business of the board, the meeting was adjourned at 11:45 a.m.



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

Good morning, my name is Tonya Gamble, my husband Brad and I own Hands Off Touchless Car Wash in Eagle River and I do the books for the business. He would have been here but he has a Rotary engagement. We were both born and raised in Alaska. I graduated from Wasilla High School and have a math degree from MIT. My husband graduated from West High and has a business management degree from APU.

The reason that I am here today, is to talk to you about the local car wash market and some of your recent activity regarding it. In July of 2008 you financed a 6.8 million dollar purchase of 2 existing automatic car washes. Those had a proven track record. Last month you approved the financing for 2 more automatic car washes without proven track records. I understand that you may not believe that you even created any new car washes since these last two that you funded you considered replacements. However, one of them was converting a self-serve over to an automatic car wash, which is very different and tends to pull different customers and the second one on 5th avenue replaced the one that had been torn down further up the street. Justification for this loan was the revenue of the previous 5th avenue car wash. This new one is a 5 million dollar wash, which the previous one was not, and based on our observations this one will have a tough time coming close to the previous wash's revenues because of its poor location. A car wash is not usually a destination business, but rather more of an impulse business. The new location on 5th avenue does not give a driver ample time to notice a car wash, think about whether they need a car wash, and then ^{easy accessibility to} pull in which is a critical component of choosing a good wash location. These 2 car washes have added 10 more ^{automatic} bays with unproven success.

Now this same car wash company is building their 5th car wash and I'm sure it will be at least a 4 bay wash, probably 6 bays. This rapid expansion of the automatic car wash market is a real concern to us and other car wash owners in the area. Rumor has it in the car wash rumor mill, ~~that with the current costs of constructing and operating a car wash,~~ ^{that} there are other new car washes around town that are having a tough time making it.

I believe that you are making loans for new car washes that are going to have a very tough time standing on their own. Since they are a part of a larger car wash company and may still be able to make their payments, perhaps that doesn't concern you, but I would like to convince you that it should. I believe that the car wash market in the municipality is saturated. Just because there are lines at car washes on the busy days, does not mean that there is a need for more car washes. With the growing costs associated with building a car wash and running a car wash, there has to be lines during those busy days, otherwise you won't be busy enough on the average day to make your payments. Yes we make a lot of our revenue on the busy days, but busy days only account for 1/3 of the year. There are still bills to pay during the other 2/3 of the year and without the income on those medium days, it would be tough to get by.

We built our car wash 10 years ago so ours was not a 5 million dollar wash, but it is easy to calculate the payment on a 5 million dollar wash with a 75% loan to value ratio to be at least \$28,000/month and that is only the loan payment, utilities in this industry are outrageous. Achieving the revenue that is necessary to pay ones bills can not be achieved when people continue to build new car washes. Also, the car wash business is incredibly seasonal and weather dependent. Most year's we are washing like crazy on good wash weather days in October and November, and so far without any snow this year, the fall busy season is non-existent. I don't believe this is due to the economy, just the lack of sloppy roads. Regardless, that fall income is not there and if I had to make a payment on a 5 million dollar car wash I would imagine it would be extremely difficult right now.

We are not the only ones in the area who believe the market is saturated. I know several other car wash owners who are concerned with the burst of new car washes popping up around town. Also, I know that at least one major Alaska bank agrees with me and is not financing car washes anymore. It seems to me that the banks that are making these deals quickly pass them off to you and then they are left with only 10% of the deal. That is not a lot of risk for them to take.

They get the business and then the risk is passed on to AIDEA and therefore the residents of Alaska.

I also think that it is important for the board to realize that when a new wash is built in a busy market, the new wash is not necessarily generating new business, but rather taking from existing businesses. I find it hard to believe that Alaska residents would support the idea that AIDEA is in the business of putting small businesses in jeopardy. These new car washes are not any different then the old ones - they use water & chemicals to get people's cars clean. Technology does not change much in the car wash industry. Sure the touchless concept is newer, but there are plenty of people around who prefer the same car wash they have been going to for 15 years.

With the construction of the new wash, I assume they will be coming to you again for long-term financing. I hope that before you approve the funding of another new car wash you look at the performance of the ones that you have already financed and make sure that each of those washes is profitable and self-sustaining on its own and is a good investment for the State of Alaska.

Then, I hope you will consider your mission statement that contains the phrase "advance economic growth and diversification" and realize that you are not doing either of these when you are financing a new car wash in the Anchorage/Eagle River area. AIDEA's purpose is not only to advance businesses in Alaska that they finance, but to advance all business in Alaska.