
Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
February 17, 2010
Anchorage, Alaska

1. CALL TO ORDER

Chairman Patrick Galvin called the meeting of the Alaska Industrial Development and Export Authority to order on February 17, 2010 at 10:30 a.m.

2. ROLL CALL: BOARD

A quorum was established.

Member present: Mike Felix (Public Member); and Emil Notti (Commissioner, Department of Commerce, Community & Economic Development).

Directors present via conference call: Chair Patrick Galvin (Commissioner, Department of Revenue); and Vice Chair John Winther (Public Member).

Joined the meeting in progress: 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 Haagenson (AEA Executive Director); Chris Anderson (Deputy Director-Credit); Sara Fisher-Goad (Deputy Director-Operations); James Hemsath (Deputy Director-Development); Valorie Walker (Deputy Director-Finance); Mike Catsi (Business Development Manager); Brenda Fuglestad (Administrative Manager); Karl Reiche (Projects Development Manager); Karsten Rodvik (Project Manager-External Affairs); Mark Schimscheimer (Project Manager); Shauna Howell (Administrative Assistant); and Sherrie Siverson (Administrative Assistant).

Others present in Anchorage: Brian Bjorkquist and Mike Nave (Department of Law); Mick McKay (Marsh Creek and 2000 E 88th LLC); Mike Martin and Jim McMillan (First National Bank Alaska); and Mike Rogers (Citizen Stakeholder).

5. PUBLIC COMMENTS

There were no public comments.

6. PRIOR MINUTES

The minutes of December 9, 2009 and January 15, 2010 were approved as presented.

7. OLD BUSINESS

There was no old business.

8. NEW BUSINESS

8A. Resolution No. L10-01 2000 East 88th LLC

Ms. Chris Anderson provided an overview of Resolution No. L10-01. The loan request, from First National Bank Alaska, was originally presented at the December 9, 2009 board meeting. The gross loan amount requested was \$3,450,000 with a 90% participation by AIDEA in the amount of \$3,105,000. The borrower is 2000 East 88th LLC and the guarantors are Kaktovik Inupiat Corporation, Marsh Creek LLC, Fairweather Exploration and Production Services, and Jessie Mohrbacher. This participation was approved by the board at the December meeting. One of the conditions in the December approval was the recommendation of an 80% guarantee by the Office of Indian Energy and Economic Development (OIEED), formerly known as the Bureau of Indian Affairs (BIA). At that time this guarantee was a bank condition. The bank is now asking that the condition of the guarantee be removed. They applied to OIEED to secure the borrower and interest rate subsidy. OIEED approved the guarantee but declined to subsidize the interest rate. Staff is recommending that the condition of an OIEED guarantee be removed so the borrower does not have to pay a 2% guarantee fee in the amount of \$62,100. At this point, both LLC members are financially strong and the project provides a more-than-adequate debt service coverage. A signed lease in form and substance acceptable to the Authority between the borrower and Marsh Creek LLC is still a condition for approval. AIDEA requests that Resolution L09-05 be rescinded and Resolution L10-01 be approved.

In response to questions from board members, Ms. Anderson reiterated that the borrower applied to OIEED to get an interest rate subsidy over a five-year period, but OIEED is currently considering projects that are actually in need of the subsidy. The 80% guarantee was originally a condition of the bank and was mirrored by AIDEA.

Mr. Bjorkquist said the board action requested is approval of Resolution L10-01 which includes within it the rescission of December 9, 2009, Resolution No. L09-05.

MOTION: Commissioner Notti moved to approve Resolution L10-01. Seconded by Mr. Felix. A roll call vote was taken and the motion passed with Messrs. Galvin, Winther, Felix and Notti voting yea. Commissioner von Scheben absent.

8B. Resolution No. G10-02 Amendment 2010-A to Polaris Fund, L.P. Limited Partnership Agreement

Ms. Valorie Walker provided an overview of Resolution G10-02. Resolution G10-02 authorizes an amendment to the Polaris Fund Limited Partnership Agreement to eliminate the requirement

for an annual audit. If this resolution is approved, the Polaris Fund will save \$18,500 for the 2009 audit and presumably that much or more in the future.

History - In order to stimulate economic development in the state during the late 80s, it was decided that AIDEA would become an investor in a venture capital partnership. A general partner, knowledgeable with venture capital, would make the investment decisions and AIDEA would be the limited partner. The idea was to invest in Alaska's businesses to the extent possible but it wasn't required. After a competitive selection process, the Polaris Fund was formed. AIDEA invested \$6 million dollars. The anticipation was that it was going to be a \$30 million dollar total partnership. The general partner is composed of three individuals, Jim Yarmoun, who is from Alaska and has been AIDEA's contact for the last 20 years, and Tim Draper and Jim Lynch, who are from out of state. Originally the Polaris Fund had a 10-year term with three 1-year extensions possible. Those were elected.

As the end of 13 years approached, the Polaris Fund still had some viable companies. AIDEA made a decision to amend the agreement in 2002 and have the Polaris Fund continue until all investments reached fruition - either companies failed, or companies went public and we received stock or cash. One of the changes made in 2002 was to change the profit and loss sharing to 50/50 between the limited and the general partner. AIDEA has received its \$6 million dollar initial investment plus \$187,500. The report in the board packet lists six remaining companies as of June 30, 2009. The December 31, 2009 report shows only four companies remain. The general partner believes that two of those have potential meaningful return possibilities.

When the Polaris Fund was actively investing in companies the audit requirement was essential. However, with four companies remaining and not a lot of activity, it is not economically viable. The audit is the single largest expense. The general partner requested that AIDEA amend the agreement to eliminate the annual audit requirement and staff agrees. AIDEA has the ability, through the semi-annual reports, to look at the activity, and under the agreement, examine the books and records if necessary. Staff recommends approval of this resolution.

In response to questions from board members, Ms. Walker said that two of the four companies are valued at just over \$1.2 million, one at \$225,000 and the other just under \$1 million. This partnership has been winding down for several years although one of the general partners is active in both companies.

A discussion ensued regarding review of the quarterly financial statements versus an annual audit. It was agreed that the Polaris Fund quarterly financial statements will be included in future board packets and reviewed under Director's Comments. Mr. Yarmoun will be invited to attend the March board meeting to answer questions and provide additional information.

MOTION: Mr. Felix moved to approve Resolution G10-02. Seconded by Commissioner Notti. A roll call vote was taken and the motion passed with Messrs. Galvin, Winther, Felix and Notti voting yea. Commissioner von Scheben absent.

8C. Resolution No. G10-04 Skagway Ore Terminal Lead Concentrate Handling Study

Mr. Leonard stated that Resolution G10-04 is requesting funding for conducting a study of lead concentrate handling at the Skagway Ore Terminal. Moving forward with plans to expand the ore terminal, one of the questions that keep coming up is how would we handle lead?

Mr. Jim Hemsath said over the last few months, AIDEA has received a number of inquiries from mining companies in the Yukon Territory and from the Municipality of Skagway about whether AIDEA would or would not be able to accept lead into the terminal. Lead was shipped through Skagway by the previous owner and quite a bit of vacuuming was required to clean it up.

In order to make a good decision, staff needs to understand not only where the market is, but what best practice methods are for handling lead. AIDEA is working with the contractor to look at lead handling practices and how this may fit into the terminal plan. AIDEA does not want to minimize or eliminate other potential products from coming through the terminal, but needs to avoid cross contamination under the shed and in the conveyor belt.

In response to a question from Chairman Galvin, Mr. Bjorkquist said his interpretation of 44.88.172 is that this appears to be an appropriate management expenditure associated with the Skagway Terminal Ore project.

In response to questions from board members, a discussion ensued regarding the cost of cleaning up lead contamination which occurred before AIDEA purchased the terminal. The cleanup costs were paid by AIDEA as part of renovating the terminal for use by Capstone, formerly Sherwood Copper. A fair amount of hazardous material remediation was required in the conveyor belt. Mr. Hemsath said the costs were capitalized into the user contract. This study is to determine if the facility should handle lead and best practices and procedures on how to handle it safely. AIDEA is requesting \$38,616 in addition to the excess funds from the master study, for a total of \$75,000.

MOTION: Mr. Winter moved to approve Resolution G10-04. Seconded by Mr. Felix. A roll call vote was taken and the motion passed with Messrs. Galvin, Winther, Felix, Notti, and von Scheben voting yea.

MOTION: Mr. Felix moved to go into executive session to discuss Healy Clean Coal Project negotiations, and to analyze legal advice concerning the DeLong Mountain Transportation System. 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 – 11:09 a.m.

The Board reconvened its meeting at 12:56 p.m.

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

9. DIRECTOR COMMENTS

Mr. Leonard said there is a bond closing scheduled for February 24. Staff are attending legislative meetings and working with the Department of Revenue on recovery zone bonds as part of Senate Bill 259. Ms. Sara Fisher-Goad added that the hearings went well but subcommittee closeouts have been delayed in the House.

AIDEA and the Board received an invitation from Alaska Ship and Drydock to attend the launch of the MV Susitna (catamaran ferry). They asked if the May 25, 2010 AIDEA board meeting could be held in Ketchikan to coincide with the launch.

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

- Loan Activity
- Loan Delinquencies
- Project Updates and Discussions
- Continuing Education Calendar
- Callan Report December 31, 2009

Loan Activity - In reviewing the pending loan application report, Mr. Winther pointed out that one loan application has been pending for ten months and another for nine months. He asked if AIDEA has a policy regarding the length of time a loan application is kept open. Do potential borrowers pay a \$1000 application fee and forfeit it after a certain amount of time has passed, or is the fee refunded? He was concerned that if a potential borrower applied for substantial loan and did not move forward within a certain amount of time funds for other projects may not be available.

Ms. Anderson said that when a loan request is received, the borrower pays a \$1000 application fee. Staff works on that application until they get to a level of commitment, whether from the loan committee or the loan committee and the board. She stated that the transaction process can't be one-size-fits-all because the level of complexity differs and the time it takes to work on them differs. Commitment, closing and funding usually does not extend past six months.

After discussion between board members and staff, Mr. Leonard said this process will be reviewed and brought to the next board meeting as a potential action item.

Project Update - Mr. Hemsath said he was notified this morning that the Tiger Grant applications for Skagway and Ketchikan were not approved for funding. The only Alaska project that was approved for funding was for loading facilities in Auke Bay, part of the marine highway system.

Loan Delinquency Report – Commissioner von Scheben said he was concerned that the 12-month rolling average of delinquent loans to the portfolio balance has been increasing since last August.

Ms. Anderson said that the average has not risen to an unhealthy degree. Last August there was only one delinquency and now there are three, which are affecting the average. Credit is going to do a modification to the first account. Changing it to seasonal payments may bring it out of delinquency. The second account has received several sale offers. They have until March 18, 2010 to put a sale together. AIDEA is in a good position on the first deed of trust for the third

and largest delinquency, and Credit does not anticipate any loss. Non-judicial foreclosure has commenced and the foreclosure date is March 4, 2010, although they may declare bankruptcy and stay the foreclosure.

Chair Galvin summarized the discussion. The loans that comprise this group are stable, but the delinquency experience is changing. On average, the portfolio balance is changing and affecting the percentage rate.

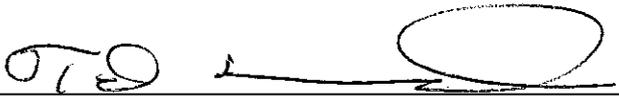
The next meeting is scheduled for Wednesday, March 17, 2010.

10. BOARD COMMENTS

There were no board comments.

11. ADJOURNMENT

There being no further business of the board, the meeting was adjourned at 1:15 p.m.

A handwritten signature in black ink, consisting of a stylized 'T' and 'L' followed by a horizontal line and a large loop.

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