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

1. CALL TO ORDER

Vice Chairman John Winther called the meeting of the Alaska Industrial Development and Export Authority to order on March 17, 2010 at 10:30 a.m.

2. ROLL CALL: BOARD

A quorum was established.

Members participating: Vice-Chair John Winther (Public Member); Mike Felix (Public Member); Emil Notti (Commissioner, Department of Commerce, Community & Economic Development); and Jerry Burnett (Deputy Commissioner, Designee for Department of Revenue).

Member participating via phone: 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); James Hemsath (Deputy Director-Development); Valorie Walker (Deputy Director-Finance); Michael Catsi (Business Development Officer); Bruce Chertkow (Loan Officer); Mark Davis (Economic Development Officer); Leona Hakala (Loan Officer); Karsten Rodvik (Project Manager-External Affairs); Mark Schimscheimer (Project Manager); Brenda Fuglestad (Administrative Manager); Shauna Howell (Administrative Assistant), and May Clark (Administrative Assistant).

Others present in Anchorage: Brian Bjorkquist (Department of Law); Jim Yarmon (Polaris Fund); Chad Powelson and Joel Fuller (Wasilla Development Center, LLC); Jan Seiberts (Washington Capital Management); Bill Inscho (FNBA); Belden Daniels (Department of Energy); Steve Klein (First Infrastructure, LLC); and Anne Southam (Environmental Resources Management/ERM).

5. PUBLIC COMMENTS

There were no public comments.

6. PRIOR MINUTES

The minutes of February 17, 2010 meeting were approved as presented.

7. OLD BUSINESS

7A. Polaris Fund Valuation Process

Jim Yarmon provided an overview of the December 31, 2009 Polaris Fund, L.P., semi-annual report to AIDEA and how each investment had been valued.

Aegis Marketing

Jim Lynch, who is one of the Polaris Fund partners, put together the valuation for Aegis. He valued it by taking six times earnings before taxes, depreciation, and amortization then subtracted existing debt for the company and came up with a value of \$7.1 million, so basically it's a multiple of earnings before taxes that he used.

Group Logic

Group Logic has been controlled by the founders since inception. The board was dominated by these founders. The outside investors had been pushing for a change in direction for some hope for liquidity. The existing founders finally agreed and the deal included some instantly vesting stock options. In order to fairly value the options and, therefore the company, an outside group was called in to come up with a value for Group Logic and their valuation was \$8 million. According to Jim Lynch, that's about one times revenues plus additional cash of \$1.2 million. To come up with the value per share all he did was take the number of outstanding shares and divided by the \$8 million.

Teecino

Teecino had about \$1.2 million in revenues last year. It wasn't enough to cover costs, so the founder, the entrepreneur, loaned the company money. Tim Draper has been our representative on Teecino and he and another outside investor put a value of 30 cents per share – the hope is that at some point in their market niche somebody will acquire that company. It certainly doesn't appear as if revenues will ever grow large enough for it to become a public company, at least not in this environment.

Stewart Petroleum Company

SPC was initially Stewart Petroleum and I'm the one who's always asked how we should value it. In the years when we did have audits, there was always a push and I agreed to value it at the prior year's cash receipts. All we have in Stewart at this point is an overriding royalty interest. Pacific Energy acquired the West MacArthur and West Forelands leases. Pacific Energy unfortunately bought those leases at a time when the price of oil was spiking up. They borrowed a lot of money, prices went down and they went bankrupt. At the beginning of last year, there were a couple of royalty payments in dispute because Pacific Energy said they were in bankruptcy and not paying. A team of lawyers got involved and the argument was there are overriding royalty interests that have been extinguished and I concluded that we were not going to get any more income, therefore, no value. Apparently the extinguishment issue has just been concluded because approximately two weeks ago we received a check and it was for the disputed royalty payments from the beginning of last year. The leases have been acquired by Cook Inlet Energy. We can expect Cook Inlet to begin production. At the beginning of last year we received one payment for approximately \$1,200. In 2008, when the prices were up, we received \$100,000. So going back, \$69,000; \$73,000; \$70,000; \$57,000; \$59,000; \$53,000; \$72,000; \$50,000; \$26,000; \$24,000; \$32,000; and \$12,000. Obviously it's been following oil prices and production clearly will be declining.

We just received a letter from Cook Inlet saying they would like to pay \$50,000 for the Polaris Fund West MacArthur overriding royalty interest. We've received offers in the past which we declined because we've always suspected that they're not going to be overly generous and in fact, our cash flow over the next few years would exceed that offer. If you asked me today what our interest is worth? I would say it's worth \$50,000. I think it's worth more and I'm sure that my partners will agree with me that we will hang onto our interest and over the next several years generate more revenue than that.

In response to a question from Mr. Felix, Mr. Yarmon said that Aegis Marketing is a company that helps hospitals increase the bottom line by going after customers.

8. NEW BUSINESS

Mr. Leonard stated that the two loans coming to the board today are guaranteed by Ouzinkie Native Corporation, which has guaranteed other loans up to approximately \$6.3 million.

8A. Loan Resolution No. L10-02 Wasilla Center Development LLC, 609 South Knik Goose Bay Road

Mr. Chertkow reviewed the Loan Resolution No. L10-02 stating, First National Bank Alaska has requested AIDEA's 90% participation of \$978,750 in a \$1,087,500 loan to Wasilla Center Development LLC. The bank's term of the \$108,750 is 15 years at the bank interest rate. AIDEA's term will be 25 years at our 25 year fixed rate. Loan proceeds will refinance debt currently held by First National Bank Alaska, pay down a loan advance by one of the LLC members, and provide long term financing for a commercial condominium unit located in Wasilla. The borrower for both loans is Wasilla Center Development LLC. The LLC membership is comprised of several individuals and entities and their organizational chart is available or review.

In 2005, First National Bank Alaska loaned the borrower funds to acquire a 6.8 acre parcel located on South Knik Goose Bay Road in Wasilla. In addition to providing financing for the real estate, First National has since provided two loans for development of the property. LLC members have also loaned the company approximately \$2.8 million which will be subordinated to the bank in AIDEA's first lien position. The borrowers platted the property into seven lots, condominiumized the project, and at present four buildings have been erected, two of which are being addressed today.

Resolution No. L10-02 addresses Unit No. 2 located at 609 South Knik Goose Bay Road. Unit No. 2 is a 9,000 s.f. commercial building presently occupied by seven tenants with varying lease terms of one to five years, most of which contain term extensions. Existing lease income provides debt service coverage of about 1.37 to one. The appraisal firm of Black-Smith, Bethard and Carlson LLC appraised Unit No. 2 to have a \$1,450,000 value as of December 15, 2009. The appraised value provides a 75% loan to value, which is within AIDEA guidelines. The project is managed by the LLC. LLC members have the expertise and are well versed in construction, construction management and property management.

Board approval of this credit will increase AIDEA's statewide exposure in the retail industry segment of their total portfolio from 20.45% to 20.66%. It will also increase the retail segment of loans in the Mat Su Region from 14.5% to 18.35%. This credit fits within all AIDEA guidelines

and staff recommends approval. Bill Inscho, First National Bank Alaska and Chad Powelson and Joel Fuller, Wasilla Development LLC, are available to answer questions.

Commissioner von Scheben stated that Knik Goose Bay Road is a heavily traveled area with high density traffic and asked if the developers have looked into the traffic analysis of accessing the highway from the property.

Mr. Powelson said the LLC is familiar with the road. When the property was purchased there was a potential for a 'taking' announced. The state wanted to expand Talkeetna across the Parks Highway to make Talkeetna and Knik Goose Bay Road a couplet, similar to A and C Street, and Northern Lights and Benson. After purchase of the property the LCC came up with a development plan for the entire site. Because of the scale of the project they obtained public comment through the borough, city and state. DOT tried to put the kibosh on the entire development because they had plans to put a road through. The LLC held off for a year, redesigned the entire site and then were told something would be happening within 3 to 5 years. Very recently it was announced that the Talkeetna extension is a primary project for the borough, similar to Dowling. If it happens, we see a tremendous benefit because of the exposure on all four sides of the property, increasing the value of the site.

MOTION: Mr. Felix moved to approve Resolution No. L10-02. Seconded by Commissioner Notti. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Messrs. Notti, Felix, Winther, Burnett and von Scheben voting yea.

8B. Resolution No. L10-03 Wasilla Center Development LLC, 619 South Knik Goose Bay Road

Mr. Chertkow stated there is one correction to the memorandum; the FNB amount should be \$120,000. He proceeded with an overview of Resolution No. L10-03. First National Bank Alaska has requested AIDEA'S 90% participation of \$1,080,000 in a \$1.2 million loan to Wasilla Center Development. The bank's term on its \$120,000 participation will be 15 years at the bank interest rate. AIDEA's term will be 25 years at AIDEA's 25-year fixed rate. Loan proceeds will refinance debt currently held by First National Bank, pay down an advance in part by one of the LLC members, and provide long-term financing for a commercial condominium unit located in Wasilla, all within the same project. The borrower is Wasilla Center Development LLC. All of the LLC members will guarantee the loan.

The history of this project is identical to the one previously discussed. Loan Resolution No. 10-03 addresses Unit No. 6 located at 619 South Knik Goose Bay Road. Unit No. 6 is a commercial condominium building 14,436 gross s.f. 100% of the building is occupied by eight tenants. An additional tenant leases part of the yard for storage. Lease terms range from two to four years. Existing leases provide debt service coverage of approximately 145 to 1. The appraisal firm of Black-Smith, Bethard and Carlson LLC appraised Unit No. 6 to have a \$1.6 million value as of December 15, 2009. This provides a 75% loan to value which is within AIDEA guidelines. The project is managed by the LLC. Board approval today of this credit will increase our statewide exposure in the office warehouse segment of our portfolio from 15.9 to 16.14 and increase the retail segment of loans made in the Mat-Su Region from 13.7 to 17.95. This credit fits within all AIDEA guidelines and staff recommends approval.

MOTION: Commissioner Notti moved to approve Resolution No. L10-03. Seconded by Mr. Winther. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Messrs. Notti, Felix, Winther, Burnett and von Scheben voting yea.

8C. DOE Loan Guarantee Program, Financial Institutions Partnership (FIPP) Update

Mr. Leonard stated that AIDEA has applied to the Department of Energy (DOE) to be part of the FIPP program. Belden Daniels and Steve Klein from DOE provided an overview of the program.

Section 1705 of the Recovery Act

- Section 1705 \$6 billion of program authorization can support in excess of \$50 to \$60 billion of eligible projects. No credit subsidy charges will be paid by the borrowers, although there are application fees.
- A (so far) temporary program, under ARRA, for the rapid deployment of renewable energy and electric power transmission projects.
- Supports commercial applications of renewable energy systems that produce power or heat (and the manufacture of components), electric power transmission systems and leading edge biofuel projects.
- A comprehensive plan for the program is under way: "Designated Lending Authority" is at the heart of that plan.

Mr. Daniels discussed the history of the formation of AIDEA and the Permanent Fund Dividend program.

He stated that AIDEA has the development finance, due diligence, risk assessment, and risk management capacity necessary for this program. Not only is it a partnership between AIDEA and AEA, but there is the close staff and board relationship and the history between the two that makes this one of the strongest teams they have seen. AIDEA and AEA have resources beyond those of other states in terms of grant resources, cash resources, and the capacity to make this go.

Mr. Winther questioned the program guidelines which say a project has to be shovel-ready by September 30, 2011. Mr. Kline said everything in the federal stimulus act has some kind of sunset date associated with it. Although there are only 18 months until that date, there is ample time to move forward with well-structured projects that are relatively straight-forward. There are a host of projects around the country that can achieve financial closing and get a shovel in the ground by that date. The house and the senate, at the committee level, have already passed provisions that would extend this and make the program essentially permanent. There is some bi-partisan support for that concept. They are hopeful that long before the sunset date, this program will be extended well into the future and take some of that pressure of the deadline off.

In response to a question from the board about how AIDEA fits into the ladder of qualifications, Mr. Kline said this is a first come, first served program. There is no allocation, either to states or to technology. A calculation is made based on the credit quality infrastructure of each deal that will draw down amounts from the \$6 billion. It is possible the funds could be exhausted by September 30, 2011, but the state of Alaska is in an equal position to submit projects to DOE for approval. The sooner the better is the message.

Mr. Daniels said they are part of the review process staff with DOE. Because we know you, we could speak with some authority and confidence about your capabilities. The fact that you have

grant resources in AEA, the balance sheet strength within AIDEA, and the fact that you have a 25-year history in financial assessment and development, is exactly what is being looked for in this project. AIDEA is in as good a position as anyone in the country to be a part of this. Our job is to honestly report issues and problems to DOE and OMB, but also be your advocate and partner in making sure that a good project gets attention. Today is about forming a collaborative relationship.

9. DIRECTOR COMMENTS

Mr. Leonard stated he would keep board members apprised of the FIPP application progress and potential projects.

Staff is working on the implementation phase of the Strategic Plan. As part of the plan, Mike Catsi was hired as Business Development Officer. Mr. Catsi has vast experience with economic development. AIDEA will update board members on the Strategic Plan implementation at upcoming board meetings.

In the legislature, House Bill 410 deals with AIDEA's ability to partner in development projects and provides flexibility in setting interest rates. HB410 passed Labor & Commerce and is moving to House Finance. AIDEA has requested a hearing with House Finance. The companion bill is in Senate Labor & Commerce and looks good for passing through and then on to Senate Finance.

House Bill 412 dealing with micro-loans, sponsored by Commissioner Notti and the Division of Investments, is up today. AIDEA will testify in support of this bill.

SB 269 deals with recovery zone bonds in which AIDEA would participate, and the facility bonds, was passed by Senate Finance. Mr. Burnett said SB269 is on the floor right now. If it passes today, it will move on to House Finance. Facility bonds will allow for tax exempt financing of business facilities and will be good for the state. If SB269 passes, both the Department of Revenue and AIDEA will work to getting regulations in place in order to utilize these bonds.

Current loan activity and delinquency reports are included in the board packets.

AIDEA Projects Update

Mr. Hemsath said Teck supplied minerals used to make medals for the Winter Olympics. The Chevron Legacy, which was launched from Ketchikan Shipyard in December, was visible in the television coverage from Vancouver.

The Army Corps of Engineers issued a wetlands permit for the Red Dog Mine that will allow them to move ahead with the Aqqaluk Deposit. It has no bearing on the discharge water permit currently under appeal. AIDEA sent a letter to the Department of Environmental Conservation (DEC) in support of Teck. Teck is working with EPA Region X to try to understand exactly what this might mean for their business.

Work on the Healy Clean Coal Project is ongoing. Mark Schimscheimer will attend a meeting in Fairbanks next week to discuss air permitting and other issues.

A \$1.8 billion round 1 Tiger Grant was awarded to Auke Bay in Juneau. Skagway and Ketchikan projects did not receive funding. Staff will notify board members when the launch date for the MV Susitna has been confirmed to determine if members are interested in attending the ceremony in Ketchikan.

Mr. Hemsath said AIDEA continues to receive requests from a variety of companies regarding shipping lead through the Skagway Ore Terminal. The Yukon government is getting very anxious to work with the Municipality and AIDEA on the ore handling facility expansion.

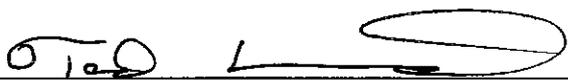
B. Next board meeting is currently scheduled for April 28, 2010.

11. BOARD COMMENTS

There were no board comments.

12. ADJOURNMENT

There being no further business of the board, the meeting was adjourned at 11:30 a.m.



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