



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
May 4, 2010
Anchorage, Alaska

1. CALL TO ORDER

Chairman Pat Galvin called the meeting of the Alaska Industrial Development and Export Authority to order on May 4, 2010 at 10:34 a.m.

2. ROLL CALL: BOARD

A quorum was established.

Members participating: Vice-Chair John Winther (Public Member); Emil Notti (Commissioner, Department of Commerce, Community & Economic Development)

Participating via phone: Chairman Pat Galvin (Commissioner, Department of Revenue).

Absent: Mike Felix (Public Member); and Commissioner Leo von Scheben (Department of Transportation & Public Facilities).

3. AGENDA APPROVAL

Mr. Leonard requested that agenda items 8B, 8E, and 8F be postponed until the July 13 meeting. There being no objection, the agenda was approved as amended.

4. ROLL CALL: STAFF, PUBLIC

Staff present in Anchorage: Ted Leonard (AIDEA Executive Director); Steve Haagenson (AEA Executive Director); Sara Fisher-Goad (Deputy Director-Operations); James Hemsath (Deputy Director-Business Development); Valorie Walker (Deputy Director-Finance); Karsten Rodvik (Project Manager-External Affairs); Bruce Chertkow (Loan Officer); (Brenda Fuglestad (Administrative Manager); and Sherrie Siverson (Administrative Assistant).

Others present in Anchorage: Brian Bjorkquist (Department of Law); Stacy Tomuro (First National Bank Alaska); Mark Gardiner (Western Financial Group); and Ken Ferguson (Northrim Bank).

Joined the meeting in progress: Michael Catsi (Business Development Officer); Chris Rutz (Procurement Manager); Michelle Hope (Procurement Manger); Susan Reeves and Robert Regis (Reeves Amodio LLC).

5. PUBLIC COMMENTS

There were no public comments.

6. PRIOR MINUTES

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

7. OLD BUSINESS

There was no old business.

8. NEW BUSINESS

8A. Loan Resolution No. L10-06 B&L Motels, Inc.

Ms. Anderson reviewed Loan Resolution No. L10-06 B&L Motels, Inc. This is a request for AIDEA participation in the amount of \$5.4 million in a \$6 million loan to B&L Motels. The co-borrowers are Gregory and Linda Weilert. The use of proceeds is to refinance a newly constructed hotel that currently employs 35 people: a 75-room Comfort Suites Hotel. It was appraised in March of this year for \$10,150,000. It has a 59 percent loan to value. The appraisal projects it at debt service coverage of 1.85 to 1 on a stabilized basis in year two with a 78% occupancy level, with a \$115 average daily room rate. In regard to the break-even point for this loan, you could get down to a 65% occupancy and \$77 per day daily room rate, so there is room in this particular request for market fluctuations. The Weilerts are 100% owners in B&L, an S-corporation that was begun in 1992 in Kansas. They own and operate eight hotels in Kansas, Washington, Arizona, Colorado, and in Alaska. This is the eleventh hotel they have constructed and owned since 1991. Site work was completed in 2007; the hotel was completed in 2008 and opened for business in March 2009. The total project cost of construction was approximately \$9.5 million. The lenders are currently financing 65% of the cost. The loan proceeds for this current loan would pay off the Kansas bank construction-to-perm loan plus fees and costs.

AIDEA currently has 23.29% of the statewide portfolio in the hotel/motel industry. With this loan request, that would increase to 24.35%. If you look at just the Anchorage region we are currently at 14.09% and that would increase to 16.09%. As recommended conditions to this loan, one would be a payment reserve account in the amount of \$200,000. The account would be maintained until EBITDA services the hotel debt 1.35 to 1 for two consecutive years, provided that the hotel retained its national chain status and if not, that would increase to 1.40 to 1. Additionally, AIDEA would require a replacement reserve fund where they would place funds into a replacement reserve at \$5000 per month for the replacement of FF&E, furniture fixtures and equipment, and structural components to the physical property up to a total dollar amount of \$500,000.

Due to generalized concern over the hotel industry, Ms. Anderson requested Mike Mohn update the 2008 hotel study. The update shows that market occupancy in Anchorage declined approximately 8% in 2009 and the daily room rate declined from \$127 to \$119 per day. This was one of three new hotels opened in 2009. In Mr. Mohn's opinion, these new hotels are probably going to be the only new hotel construction for awhile. Occupancy projections for 2010 and 2011 are 64% and in the low to mid-70 percentile by the end of the projection period. He feels that the Anchorage lodging market has performed very well despite the battering everyone had in 2009. The unfortunate timing and combination of significant recessionary influences, changes in cruise patterns, and continued expansion in the room supply have collectively caused what he considers to be a short-term interruption in the market's general stabilized occupancy pattern. He expects the lodging market to rebound relatively quickly to previous levels. Overall,

the fundamental factors that have sustained the Anchorage lodging market over the last decade have not materially changed in recent years and the future continues to hold the promise of significant opportunities that can enhance performance within the market. This report will be distributed to board members and can be discussed at the next board meeting. Mr. Weilert is on the phone and a First National Bank representative is here if board members have questions.

Mr. Winther stated this is the first loan he has seen come to the board from an out-of-state resident. This looks like a good loan to value and it's a nice hotel, but we have 24.35% of our loans in the hotel business. At some point we may reach a saturation factor in the industry. My concern is that this loan could possibly take the place of a resident who wanted a loan for a hotel and would increase the number of loans in that market. I appreciate the jobs, I appreciate the business, but I would just like to voice my concerns. We are a public entity and we're financing an out-of-state resident.

Mr. Weilert discussed living and working in Alaska and said he has been a hands-on builder at each of his hotel locations.

Commissioner Notti said he agreed with Mr. Winther about the percentage of AIDEA's investment in the hotel business.

Mr. Leonard said that as part of implementation of the Strategic Plan one of the key things staff plans to look at is the mixture of the loan portfolio.

Chair Galvin said he is concerned about the amount of the AIDEA portfolio in hotels, however, on this particular program AIDEA is a passive participant and we get what comes through the door. He appreciated Mr. Leonard's comment that AIDEA is going to try to be more active in targeting and generating loans in other areas. He also appreciates Mr. Winther's concern regarding an in-state focus, but believes AIDEA has a responsibility towards economic development and creating jobs in the state. When hiring jobs in this state, where the particular owners reside isn't the critical issue associated with generating the economic impact.

In response to questions by the board, Mr. Weilert said that 99% of the people involved in construction of the hotel were local hires.

MOTION: Commissioner Notti moved to approve Resolution No. L10-06. Seconded by Mr. Winther. The question was called. A roll call vote was taken. Messrs. Galvin and Notti voting yea and Mr. Winther voting nay. Commissioner von Scheben and Mr. Felix absent.

Commissioner Notti requested reconsideration of this loan at the next board meeting.

Mr. Bjorkquist believes a majority of the quorum can transact business and that the resolution passed, however he requested an opportunity to review the law related to conduct of a board to make sure that that conclusion is correct.

Discussions ensued regarding Robert's Rules of Order vs. statutes and regulations of a board. Mr. Bjorkquist said there is no reconsideration process by statute. He suggested Commissioner Notti rescind his reconsideration request so the board can take up a new resolution if his legal research comes to a different conclusion. The only reconsideration that the Statute provides is that if there is a tie vote the matter goes before the Governor.

Commissioner Notti withdrew his request for reconsideration. He asked Mr. Bjorkquist to research this issue and bring information back to the board.

MOTION: Mr. Winther moved to rescind the vote approving Resolution No. L10-06. Seconded by Commissioner Notti. The question was called. A roll call vote was taken. Messrs. Notti and Winther voting yea and Commissioner Galvin voting nay. Commissioner von Scheben and Mr. Felix absent.

MOTION: Commissioner Notti moved to table Resolution No. L10-06 until the July 13, 2010 board meeting. Seconded by Mr. Winther. The question was called. A roll call vote was taken and the motion passed with Messrs. Galvin, Notti, and Winther voting yea. Commissioner von Scheben and Mr. Felix absent.

Mr. Bjorkquist added that there is a regulation that provides for appeals. An originator of a loan who has submitted an application which is not approved by Authority may appeal that decision to the board by filing a written notice of appeal of not later than 10 working days. If that appeal were to be filed, the board will have to issue its decision within 45 working days. He will further research the issues that have been brought up and report back to the board.

**8C. Resolution No. G10-03 Adoption of Amendments to AIDEA Regulations
(3 AAC 99.906 Curtailment of Originator or Financial Institution Eligibility)**

Ms. Anderson reviewed Resolution No. G10-03 stating the resolution deals with 3 AAC 99.906 Curtailment of Originator or Financial Institution Eligibility.

This proposed regulation change would return the regulation to a single cut off point using a 5% delinquency rate after which the Authority would discontinue purchasing participation loans or guarantees from a financial institution. The proposed regulation will permit the Authority to continue to accept business from financial institutions. A public hearing was held and there were no public comments at the hearing. AIDEA received two written comments: 1) Mr. Joe Beedle at Northrim; and 2) Dave Lawer at First National Bank of Alaska. A revision was made to the regulations to include a 5% cutoff figure. After this revision, staff again contacted all of the interested parties who had made comments. Staff was informed that the interested parties also supported this regulatory change using the 5% cutoff figure.

Staff recommended approval of Resolution No. G10-03.

In response to Chair Galvin, Ms. Anderson stated she had not asked AIDEA's financial advisors whether this regulation change would impact the Authority's credit rating or its loaning ability; however, she did not believe there would be an impact.

Mr. Leonard stated there is a financial advisor in the room and he is indicating that there would be no impact to AIDEA's crediting rating or loaning ability. He said our analysis has been that it will not affect our default rating, so that in and of itself would probably ensure, as far as we know, that it wouldn't affect our bond rating or our ability to loan.

MOTION: Mr. Winther moved to approve Resolution No. G10-03. Seconded by Commissioner Notti. A roll call vote was taken and the motion passed with Messrs. Notti, Winther and Galvin voting yea. Commissioners von Scheben and Mr. Felix absent.

8D. Resolution No. G09-01A Amendment to Building Maintenance Resolution

Mr. Leonard stated that the amendment to Building Maintenance Resolution No. G09-01 requests \$1,140,000 in addition to the original request of \$500,000, for a total \$1,640,000. To date \$140,000 of the original \$500,000 has been spent or committed. This request is based on valuation of space needs and the costs of different alternatives available to meet those needs. Based on the alternatives, management recommends the renovation of the existing building as the most cost-effective option.

Ms. Fisher-Goad gave board members more perspective on growth in staffing levels, stating the Authority had 61 positions in FY2001 and 73 positions in FY2010. As staffing, projects and programs have expanded, the need to maximize space has increased. There is a need to co-locate working groups to enhance efficiency.

MOTION: Commissioner Notti moved to approve Resolution G09-01A. Seconded by Mr. Winther. A roll call vote was taken and the motion passed with Messrs. Notti, Winther and Galvin voting yea. Commissioners von Scheben and Mr. Felix absent.

9. DIRECTOR COMMENTS

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

- Loan Activity
- Loan Delinquencies
- Projects Updates

Board Members were invited to attend the Christening of the MV Susitna in Ketchikan on June 11, 2010.

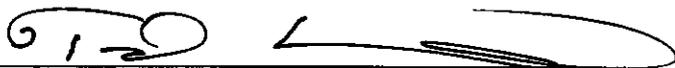
Next meeting is scheduled for Tuesday, July 13, 2010

10. BOARD COMMENTS

There were no Board comments.

11. ADJOURNMENT

There being no further business of the board, the meeting was adjourned at 11:27 a.m.



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