



Alaska Industrial Development and Export Authority  
**BOARD MEETING MINUTES**  
**Thursday, June 9, 2011**  
Anchorage, Alaska

**1. CALL TO ORDER**

Chairman Mr. Hugh Short called the meeting of the Alaska Industrial Development and Export Authority to order on June 9, 2011 at 1:45 p.m. A quorum was established.

**2. ROLL CALL: BOARD**

Members present: Chair Hugh Short (Public Member); Jerry Burnett (Deputy Commissioner, Department of Revenue); Susan Bell (Commissioner, Department of Commerce, Community, and Economic Development); Ron Arvin (Public Member); Robert Sheldon (Public Member); and Gary Wilken (Public Member);

**3. AGENDA APPROVAL**

Mr. Leonard requested an addition to Director Comments after B to appoint a subcommittee for Healy Clean Coal Plant negotiations. The agenda was approved as amended.

**4. ROLL CALL: STAFF, PUBLIC**

Staff present in Anchorage: Ted Leonard (Executive Director); Mark Davis (Economic Development Officer); Chris Anderson (Deputy Director-Commercial Finance); Valorie Walker (Deputy Director-Finance); Jim Hemsath (Deputy Director-Business Development); Leona Hakala (Loan Officer II); Bill Phelan (Loan Officer II); Aaron Rhoades (Human Resources Administrator); Karl Reiche (Project Development Manager); Mark Schimscheimer (Project Manager); Karsten Rodvik (External Affairs Project Manager); Sherrie Siverson (AIDEA Executive Assistant); Sandy Burrows (Administrative Assistant); and Teri Webster (Administrative Assistant).

Others present in Anchorage: Brian Bjorkquist (Department of Law); Pat Clancy and Mark Gardiner (Western Financial Group); Jay Page and Jim McMillan (First National Bank Alaska); Jane and John Ellsworth (Alaska Frontier Constructors); and Wayne Blackwell and Robert Schwartz (Resource Processing Systems, LLC).

*Listen to the full audio recording of the 6/09/2011 meeting at <http://www.aidea.org/boardmin.html>*

**5. PUBLIC COMMENTS**

There were no public comments.

## **6. PRIOR MINUTES**

March 31, 2011, April 1, 2011 and April 20, 2011 meeting minutes were approved as presented.

## **7. NEW BUSINESS**

### **7A. Resolution No. L11-05, 6250 S. Airpark Place, LLC**

Mr. Leonard introduced the loan. This loan is a 90% participation loan from First National Bank of Alaska for a property at 6250 S. Airpark Place. The total loan would be five million dollars with AIDEA participation at \$4.5 million. This is term financing of a new owner-occupied hanger/office complex and will be funded in the 2012 fiscal year.

Ms. Anderson reviewed the information regarding Loan Resolution No. L11-05 as outlined in the Memo to the Board.

Mr. Sheldon disclosed that his wife is longtime friends with the owners, the Ellsworths, but he personally is not involved with them socially and believes it does not excuse him from voting on this resolution. Mr. Short asked about the memo that was attached from 1996. Ms. Anderson said it was a guideline that is used for non-recourse financing. Mr. Short explained to the Board that non-recourse financing means there are no guarantors in the transaction. It is secured strictly by the real estate.

**MOTION: Mr. Wilken moved to approve Resolution No. L11-05. Mr. Arvin seconded. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Mr. Wilken, Mr. Short, Mr. Sheldon, Mr. Arvin, Commissioner Bell, and Deputy Commissioner Burnett voting yea.**

### **7B. Resolution No. G11-09 Adoption of Amended regulations relating to the Loan Participation Program 3 AAC 99.250(d) and 3 AAC 99.350(e) Setting Interest Rates for refinancing both taxable and tax-exempt loans**

Mr. Leonard gave an overview of the resolution. This resolution focuses on setting interest rates in the Loan Participation Program for refinancing loans. The Board asked management for recommendations on the refinance programs. At a previous work session staff recommended setting a second tier at a higher rate, changing the participation level from 90/10% to 70/30% and limiting the total amount of participation of refinancing to \$10M from \$20M. This resolution will add an additional 30 basis points to the fixed and variable rates on loans where the majority of the loan will be used for refinancing an existing loan. A public hearing was held and there were no public comments.

Mr. Wilken asked how this would work structurally. Mr. Leonard gave a hypothetical scenario of someone asking for a ten million dollar loan strictly for refinancing. They would be charged the regular interest rate setting of 5.76% for fixed rate plus an additional 30 basis points making it 6.06%. Mr. Leonard said he perceived that the Board believes there is a different type of economic value for a refinancing loan versus a loan for new construction or expanding business. This is one way through the market to charge for that different value. Mr. Wilken asked if the 6.06% is competitive with other financial institutions. Mr. Leonard replied that it is, and that our advantage is the loan is a long term loan on a fixed interest rate.

Mr. Sheldon read the definition of the term "refinancing loan" as a loan for which 70% or more of the loan proceeds are used to refinance an outstanding loan. He clarified if a loan does not reach that threshold it would then be categorized as an equity extraction or something else. Mr. Leonard confirmed this by indicating that AIDEA gets many mixed loans and wants to have a definitive line for the banks. Mr. Sheldon pointed out that someone can take out a larger loan and call it equity extraction to avoid the higher interest rate. He would like to avoid people taking out larger loans because of the tiered structure. Mr. Leonard said the definition of an equity extraction is it has to be used for an expansion of the business. They could not just take money out of the business. Mr. Davis said this is the definition of what the banks use. Mr. Short gave a scenario where someone is using a loan with a mix of refinancing and expansion. They could game the system by increasing their original loan by a small amount, purchase more equipment, and then the refinancing percentage would fall below the 70% to obtain the lower interest rate. The consequence to this is a higher loan to value. Mr. Leonard suggested changing it to 80%. Mr. Sheldon asked staff to be cognizant of incentives or unintended consequences resulting from adjustments to the policy. He is not concerned with the equity extraction definition but more of a "management fee" for doing the project. Mr. Leonard said the loan underwriters would be responsible. Mr. Short sees where this could be used for not intended purposes. Most likely this would only be used with the strict refinancing. Ms. Anderson stated 50% of loans are mixed with refinancing and equity extraction.

Mr. Arvin asked how methodology between the \$20M and \$10M ceiling came about. Mr. Leonard said it was from discussions with the Board over the past six months, regarding views that refinancing loans do not have the same economic impact as new construction loans. Mr. Leonard said he is going to ask the Board in the work session to commit a set dollar amount in the Loan Participation Program for each year. He would like the first tier, new construction or expansion, to have more money allocated to it overall than the second tier which is the refinancing. This would be an internal policy, not a statute or regulation.

Mr. Arvin stated that when a business can reduce their debt service they plow those dollars back into their business and that means more jobs. He does not agree that the two are different as far as economic impact. He sees where tier one would encourage new business and tier two may punish someone that is already in business by costing them more to reduce their debt service to help fund their operation.

Mr. Short asked if the Allen Marine loan reviewed at the previous Board meeting would be possible under these regulations. Ms. Anderson said no. If we had the ceiling in place at \$10M it would have been too large and refinancing would have been more than 70%. Mr. Short said he thought Allen Marine was a good loan. It had a huge economic impact.

Mr. Leonard said that it wouldn't be a regulation but an internal policy. Mr. Bjorkquist stated any policy that subsequently impacts the public has to be adopted as a regulation. If it is a policy it has to be purely internal. Limiting loans of any particular size would not be appropriate for a policy. It might need to be adopted by regulation if it is actually going to be implemented. Mr. Sheldon said the direction taken by staff might have to do with some former members as well as himself who felt this authority has finite funds and needs to have a demarcation line somewhere of what types of items to encourage. A lot of the refinancing does not add additional jobs, whereas the new programs do.

Mr. Short said he does not support this resolution because he thinks this does not draw the line in the right place. He liked what AIDEA did with Allen Marine. He felt it had a huge economic impact for Southeast Alaska and created a lot of jobs but it doesn't fit in this box. If the authority is going to pass a policy or regulation that would not have made the Allen Marine loan possible, then he feels the Board would not be doing their job right. He is comfortable with status quo rather than passing this resolution.

Mr. Bjorkquist clarified that this is a proposed regulation. The Board can amend this to make it acceptable to them and still pass it today or they can give it back to the staff for future work to continue with it.

**MOTION: Mr. Wilken moved to table resolution G11-09. Seconded by Mr. Sheldon.**

Mr. Leonard said without any criteria it makes things difficult if there are going to be arguments on how we use our resources for loans versus project development. Mr. Short said all he heard is that Mr. Leonard has a tough job. Mr. Leonard said if this is not the direction the Board wants to go, then he agrees they should vote it down.

Commissioner Bell said staff did what was discussed, which was to show the Board what it might look like with tiers. She said this proposal has value. The Board had a concept and asked staff to see what this would look like and then we tried to think about what it would be like in practice. This proposal is exactly a reflection of the emails and discussions that happened and she appreciates it. She also pointed out the \$10M ceiling cap was not in this resolution, it was just a concept they were discussing. This resolution covers the 30 basis points.

By tabling this resolution this topic can be brought up at the next meeting. If it is not, then the issue is effectively dead. The intent is to talk about this at the next meeting.

**A roll call vote was taken and the motion passed to table the resolution. Mr. Wilken, Mr. Short, Mr. Sheldon, Mr. Arvin, Commissioner Bell, and Deputy Commissioner Burnett voting yea.**

#### **7C. Resolution No. G11-13 Amendments to AIDEA By-laws**

Mr. Leonard said this resolution deals with amending, revising and restating AIDEA By-laws. This past session, the Legislature passed AS44.88.03 increasing the number of Board members from five to seven. Due to AS 44.88.050(a) this changed the requirements for a quorum from three to four. The change in these By-laws will match the statutes. There were some technical revisions that are not material and are listed in the resolution.

**MOTION: Mr. Wilken moved to approve Resolution No. G11-13. Commissioner Bell seconded. There being no discussion, the question was called. The motion passed unanimously.**

## **8. DIRECTOR COMMENTS**

### **8A. Director's Status Report of AIDEA Programs and Projects**

Mr. Leonard said AIDEA has signed the Joint Operating Agreement with Buccaneer and is moving on to complete the conditions precedent. The other jack-up rig is currently in Vancouver Island. He added that AIDEA is working on resolving the air permit issues regarding the Healy Clean Coal Project. He is hoping to have a solution worked out with GVEA and the EPA in the next couple of weeks.

The Board-appointed Investment committee has had two meetings. Mr. Leonard said he appreciates the help Mr. Short, Mr. Sheldon and Deputy Commissioner Burnett provided on that. Out of those meetings came five recommendations.

- Change the investment policy to allow some percentage of the portfolio to be non-dollar denomination investments.
- Keep at least \$200 Million, or 60%, of the external managed investment portfolio in U.S. Dollar denominated investments.
- Create a debt management policy in order to assist in protecting our bond rating and managing our debt capacity.
- During the budgeting process, provide at least a two year cash flow pipeline for project development to assist with making decisions and allocating funds between assets.
- Provide more analysis on the loan portfolio.

Mr. Leonard said AIDEA is bidding for a new investment advisor. Staff is still working on solutions to expand workspace in the building. Request for Proposals have been sent out for help reviewing potential solutions. He also let the Board know that Mike Catsi, the business support officer, received certification in Economic Development from the International Economic Development Council. Mr. Catsi is one of 1200 Certified Economic Developers in the country and one out of two in Alaska. This is quite an accomplishment and brings a lot of value to AIDEA as we look for programs to promote economic development in the state.

Staff went to Skagway for an assembly meeting regarding the possible expansion of the ore terminal. They also met with a representative from Selwyn Chihong Mining Ltd.

Details were given for holding a Board meeting in Kotzebue on August 22, 2011, followed by a flight to Red Dog Mine the next day for a tour. Most Board members said they were available to attend.

Mr. Leonard said he talked with Jason Hooley's office regarding the appointment of a fifth public member. This should occur by the end of June.

Mr. Leonard stated the status reports are in the Board packet. There were no questions.

**8B. Next regularly scheduled meeting to be determined.**

Ms. Siverson stated there was a request from the Board to move the date from July 20 to July 19, 2011. There was a discussion on this and most Board members will be able to attend.

Mr. Short requested the meeting documents be in one pdf document rather than per item. Ms. Siverson informed Mr. Sheldon and Commission Bell that she is not having any problems outside the building with Sharepoint using their id.

8C. Healy Clean Coal Project.

Mr. Short requested a negotiating team be made up to include up to three Board members. Mr. Leonard said the chair of the subcommittee would come in for 20 minutes and give an update and the team would take over. They would not be required to stay. They would also be at the negotiation strategy meetings which can all be by phone. Mr. Wilken and Commissioner Bell volunteered.

## 9. BOARD COMMENTS

Commissioner Bell will arrive late tomorrow around 10:30 am.

Mr. Arvin apologized for not being at the meeting on April 20, 2011. He flew from Taiwan to attend the meeting but had the meeting date incorrect. He was disappointed he missed the meeting.

## 10. ADJOURNMENT

There being no further business of the Board, the meeting was adjourned at 2:32 p.m.



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