



Alaska Industrial Development and Export Authority

BOARD MEETING MINUTES

Thursday, December 6, 2012

Anchorage, Alaska; Boca Grande, Florida; Seattle, Washington; Taipei, Taiwan

1. CALL TO ORDER

Chair Hugh Short called the meeting of the Alaska Industrial Development and Export Authority to order on December 6, 2012 at 10:20 a.m. A quorum was established.

2. ROLL CALL: BOARD

Members present in Anchorage: Chair Hugh Short (Public Member); Robbie Graham (Assistant Commissioner Department Commerce, Community, and Economic Development); Bruce Tangeman (Deputy Commissioner Department of Revenue); Gary Wilken (Public Member).

Members participating via teleconference: Ron Arvin from Taipei, Taiwan (Public Member); Wilson Hughes from Boca Grande, Florida (Public Member); Robert Sheldon from Seattle, Washington (Public Member)

3. AGENDA APPROVAL

MOTION: A motion was made by Assistant Commissioner Graham to amend the agenda by moving Item 7D to Item 7B and Item 7F to Item 7C. Motion seconded by Deputy Commissioner Tangeman. The motion was approved unanimously.

The agenda was approved as amended.

4. ROLL CALL: STAFF, PUBLIC

Staff present in Anchorage: Ted Leonard (Executive Director); Chris Anderson (Deputy Director-Commercial Finance); Mark Davis (Deputy Director-Infrastructure Development); Jim Hemsath (Deputy Director-Project Development & Asset Management); Valorie Walker (Deputy Director-Finance); Sandra Moller (AEA Deputy Director-Rural Energy); Sean Skaling (AEA Deputy Director-Alternative Energy & Energy Efficiency); Amy Adler (AEA Controller); Brenda Applegate (AIDEA Controller); Aaron Rhoades (Human Resources); Karsten Rodvik (AIDEA Project Manager-External Affairs); Kelli Veech (Accountant); Sherrie Siverson (AIDEA Executive Assistant); Teri Webster (AEA Executive Assistant) Sandie Hayes (AEA Administrative Assistant) Krin Kemppainen (AIDEA Administrative Assistant)

Others present in Anchorage: Bart Armfield, Tom Haberman, and Jack Laasch (Brooks Range Petroleum Corporation ("BRPC")); Brian Bjorkquist and Jerry Juday (Department of Law); Cory Borgeson, Bill Nordmark and John Sloan (Golden Valley Electric Association); Mark Gardiner (Western Financial Group); Beth Stuart (KPMG); Donovan Walker (Accu-Type Depositions)

Others participating via teleconference: Eric Lidji (Petroleum News); Mike O'Leary (Callan Associates)

5. PUBLIC COMMENTS

There were no public comments.

6. PRIOR MINUTES

The October 30, 2012 AIDEA Board meeting minutes were adopted as presented.

7. NEW BUSINESS

7A. FY 2012 Audited Financial Statement

Mr. Leonard said staff worked very diligently with Ms. Stuart and KPMG and appreciates their assistance. He noted Ms. Walker's team has done a good job on the financials and the audit.

Ms. Stuart said there are three reports contained in the packet: basic financial statements, the audit, and the letter to the Board which communicates the major findings of the audit. She said the AIDEA audit was completed successfully with an unqualified opinion issued. The major area of focus during the audit was the valuation of loans, and for federal grant purposes there was one program tested and no findings were reported. No significant internal control deficiencies were noted.

Assistant Commissioner Graham asked what program was tested. Ms. Stuart said the Department of Transportation program. Mr. Leonard said that program deals with the Ketchikan Shipyard and the grants that flow through that project.

Ms. Stuart said because of AIDEA's structure under the state of Alaska, both the revolving fund information that is managed in Anchorage, as well as loan funds that are managed out of Juneau, are included in the financial statements.

MOTION: A motion was made by Assistant Commissioner Graham to recess the AIDEA meeting. Motion seconded by Deputy Commissioner Tangeman. The motion was approved unanimously.

RECESS: 10:27 a.m.

The Board reconvened its regular meeting at 1:02 p.m.

MOTION: A motion was made by Assistant Commissioner Graham to amend the agenda by moving Item 7F to Item 7B and Item 7D to Item 7C. Motion seconded by Mr. Wilken. The motion was approved unanimously.

7B. Resolution No. G12-08 Authorizing BRPC Mustang Road and Pad Project

Mr. Leonard said this resolution is for funding of an investment in the Mustang Oilfield Access Road and Production Pad Project. The project was presented at the last meeting for approval of due diligence. The packet contains the final finance plan allowing AIDEA to go forward with negotiations and invest in the project. Mr. Hemsath, Mr. Gardiner and representatives from BPRC were present to answer questions.

Mr. Hemsath said this project consists of a 4.5-mile road, production pad, gravel quarry and ice road, all things necessary to put in a production pad to the field that would later be used for a production facility and development of the field. The incentives and tax credits available through the project have been examined by a tax accountant and 46% of the qualified capital expenditures would be available for purposes of assisting with the financing.

Mr. Hemsath said the Mustang Road, LLC would be an 80/20 ownership agreement with AIDEA as a preferred owner. AIDEA's financing is capped at \$20 million dollars. The project is estimated to cost \$25 million dollars. BRPC will pay \$5 million dollars and any cost overruns. Repsol and Arctic Slope Regional Corporation ("ASRC") provided letters of interest for using the road and pad for their own development and eventual use of the projected production facility. The advantage of the pad is it is less than 1000 ft. from the Alpine transit line. Also, the North Slope Borough passed a resolution in support of AIDEA's involvement of this project, meeting AIDEA's public hearing requirement.

Mr. Hemsath said the capital credits would be payable to the LLC and would be used to pay down AIDEA's capital. This will reduce AIDEA's capital exposure from \$20 million to \$8.5 million dollars by the time the field goes into production. The payment table is included in the packet. The payments are guaranteed by BPRC, their parent organization, AVCG, and Rams Horn Investment, a division of Nabors. Staff recommends approval of the resolution.

Mr. Sheldon complimented staff on the way this project was crafted and recommends following the same process in the future.

Chair Short asked what the working interest represents, how effectively will it work, and how collection will be made if there is a default. Mr. Hemsath said the 1% carried working interest provides a 1% ownership of the field resources after taxes and royalties. The details are still being worked out. As it relates to the field, in the event that BRPC can't develop the field, the LLC has a 1% working interest in the field no matter what company develops the field, This is similar to the overriding royalty interest concept used with Buccaneer.

Mr. Leonard asked if the carried working interest was needed in order to pass the ACES credits. Mr. Hemsath said yes, we need the carried working interest to be able to receive the ACES credits for qualified capital expenditures.

Mr. Wilken asked what the downside protection is because the collateral is a hard asset that could potentially have zero value. Mr. Hemsath said we have a 15-year term on the lease but what if it doesn't produce for 15 years? The idea is to take the working interest on the production in the early years that are in excess and put those in a reserve account. We envision as we move down the period, the funds that are no longer needed to make the debt payment will be released. This will continue until the road is paid off. By year 10, there should be enough in the reserve account to make the final payments on the investment structure.

Mr. Leonard noted we have the secondary collateral, the parent guarantees. Mr. Hemsath said the parent company guarantees the payments will be executed to make up any deficiencies in the payment stream that doesn't come from the working interest. Those guarantees are there throughout the agreement.

Chair Short asked what the guarantee is behind AGVC and Rams Horn. Mr. Hemsath said that is one of the details to be identified, but Rams Horn is a division of Nabors and we feel there is a relatively strong guarantee there. AGVC is a long-term investment fund that's been working in Alaska on solid resources and believes they would provide a strong guarantee in terms of repayment of revenue stream.

Assistant Commissioner Graham asked about the number of jobs that will be created as a result of the project. Mr. Hemsath said the job numbers are in two areas. The first area is road construction, which will be 20 jobs. The second area is the operation of the production facility, estimated at 50 jobs.

Mr. Hughes asked if there is a requirement of clean up or removal of the pad and road after completion. Mr. Hemsath said the state license on the ground does require an aspect of remediation and all the responsibility of remediation of the road and pad will be with BRPC. At the end of the 15-year period or the completion of the term of the contract, all ownership in the LLC will be transferred to BRPC.

Mr. Hughes asked what steps are available to ensure we don't reach the \$20-million dollar limit specified in the contract. Mr. Hemsath said the estimates completed by an engineering firm show the road cost in the \$22.3 million-dollar capital range. There is not much opportunity for value engineering at this stage. Mr. Hughes asked if this will be competitively bid. Mr. Hemsath said yes, it will be competitively bid.

Mr. Armfield CEO of BRPC was invited to introduce himself and asked if he had any input. He said he feels confident in the cost estimates they received from two separate entities. The design of the road is very typical and the pad's design follows traditional mining capabilities.

Assistant Commissioner Graham asked what other utilities will be established in a utility corridor that might service the operation. Mr. Armfield said no utilities will be placed as the road is being constructed. Mr. Hemsath said the field itself will be self-sufficient with all of its utilities, including power generation and water, all of which will be produced locally.

Chair Short asked Mr. Armfield why they chose AIDEA for the partnership. Mr. Armfield said they came to AIDEA two-and-a-half years ago while this was in its infancy stage. They have also attempted to secure outside funding through other avenues, but elected to stay in state and capitalize on Alaskan programs. The interest rate is very competitive and they feel the trend AIDEA is setting in the state of Alaska is opening a lot of opportunities for relationships to grow with independent players to capitalize on the smaller 25- to 50-million barrel projects.

Chair Short said he will be voting on this resolution because it has been determined he does not have a conflict of interest as previously thought.

MOTION: A motion was made by Mr. Wilken to approve Loan Resolution No. G12-08. Motion seconded by Mr. Hughes. The motion was approved with Board members Wilken, Hughes, Graham, and Short voting yea.

7C. Resolution No. G01-14C Amended and Restated Resolution Relating to Fixed-Income Investment Policies (amendment to G01-14B)

Mr. Leonard said this amendment will make this resolution more secure and reduce interest rate fluctuation risk. A redline version of the changes are in the packet. Mr. Leonard asked Mr. O'Leary to explain the amendment. Mr. O'Leary said the change pertains only to the non-U.S. dollar denominated portion of the portfolio, which does not exist at the moment, but was contemplated when the Board recently revised the overall policy. The change provides the manager the flexibility to shift from a longer-term bond index to a very short-term oriented portfolio if and when the manager feels that is a prudent course of action. The vast majority of AIDEA's investment assets will not be affected by this proposed change in guidelines.

MOTION: A motion was made by Assistant Commissioner Graham to approve Resolution No. G01-14C. Motion seconded by Mr. Wilken. The motion was approved with Board members Wilken, Hughes, Graham, and Short voting yea.

7D. Resolution No. G12-04 AIDEA and AEA Lending Agreement

MOTION: A motion was made by Assistant Commissioner Graham to approve Resolution No. G12-04. Motion seconded by Mr. Hughes.

Mr. Leonard said this resolution is the mirror image of the lending agreement that the AEA Board approved between AIDEA and AEA in order for AEA to have working capital.

The motion was approved with Board members Wilken, Hughes, Graham, and Short voting yea.

7E. Resolution No. G12-07 FY 2014 Dividend Recommendation

Mr. Leonard said this resolution addresses the yearly dividend declaration the Board makes to the state of Alaska. The dividend recommendation this year is 50% of the net income, which is the equivalent of approximately \$20,745,000 based on cash coverages and net income.

Mr. Wilken asked if the net income is approximately the same this year as it was for last year. Mr. Leonard said yes, it was approximately the same as last year.

MOTION: A motion was made by Assistant Commissioner Graham to approve Resolution No. G12-07. Motion seconded by Mr. Wilken. The motion was approved with Wilken, Hughes, Graham, and Short voting yea.

7F. Resolution No. G12-06 AIDEA Procedures for Inspection of Public Records

MOTION: A motion was made by Mr. Wilken to approve Resolution No. G12-06. Motion seconded by Assistant Commissioner Graham. The motion was approved with Wilken, Hughes, Graham, and Short voting yea.

MOTION: Mr. Wilken made a motion to go into Executive Session to discuss proprietary and confidential information regarding Healy Clean Coal Plant and the Executive Director annual review. Motion seconded by Deputy Commissioner Tangeman. The motion was approved unanimously.

7G. Executive Session: Healy Clean Coal Project

7H. Executive Session: Executive Director Annual Review

The Board entered into Executive Session at 1:43 p.m.

The Board reconvened its regular meeting at 2:51 p.m. Everything covered in executive session was appropriate to the motion.

8. DIRECTOR COMMENTS

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

Mr. Leonard referred Board members to the Loan reports and Project Fact Sheets in their packets and said he is able to answer questions.

Mr. Wilken asked what the magnitude is of the pending Buccaneer permits. Mr. Leonard said the permits for the rig are very small. The Coast Guard will be coming in to make their final approval so the rig can be moved out of Homer. Buccaneer is also working with DNR to obtain a land permit and another permit that would allow them to drill down to the gas level.

Mr. Wilken asked if the pending permits are cause for concern in moving forward. Mr. Leonard said there is no overall concern, but the permits are needed before they can move out of Homer to Cosmopolitan and start drilling for gas. Mr. Wilken asked if any of the pending permits require public comment. Mr. Leonard said he would get Mr. Wilken a list of which pending permits require public comment.

Mr. Wilken asked if any of the pending permits would be "show stoppers." Mr. Leonard said he doesn't believe any of the permits are "show stoppers," but they want to acquire them as quickly as possible to get out of Homer.

8B. Next regularly scheduled meeting is Thursday, January 10, 2013.

Mr. Leonard said if the next meeting is in Fairbanks, he may request the Board have a second meeting in January. A public hearing is necessary to complete SETS regulations and there may be a new request for due diligence for the production facility in order for BRPC to move forward. Chair Short said it could be a teleconference meeting and he strongly suggested we hold a meeting in Fairbanks. It would be a good opportunity to get to know the community and be accessible.

Mr. Leonard asked Mr. Wilken if he could estimate the number of attendees to determine which facility would be large enough to hold the meeting. Mr. Wilken said it depends on what the Board wants out of the meeting, whether they are there as a fact-finder, for input, or for basic business. Attendees should include assemblies, councils, Fairbanks Economic Development and the utility group. He and Ms. Webster will be working together on securing a location.

Assistant Commissioner Graham suggested there may be a community event that Fairbanks wants to put together from within the investment community, either a reception or a post-meeting gathering for those that are not attending the meeting, but would like to have more networking opportunities or interface with the Board. Mr. Leonard said the banks may also appreciate something like that too.

9. BOARD COMMENTS

Assistant Commissioner Graham said it was enjoyable to attend the meeting and wished everyone happy holidays. Mr. Arvin said he is pleased with AIDEA's direction and the fabulous work, and wished everyone happy holidays. Mr. Wilken wished everyone a Merry Christmas and noted Alaska is sitting in a pretty great spot and is thankful.

Chair Short said the funding of loans in FY 2013 was \$2.5 million dollars which fell short of the goal of \$50 million dollars. He asked if the interest rate needs to be adjusted because he doesn't think we are hitting a target market with the funding. If interest rates are going to stay this low, then perhaps funds should be reallocated toward more uses that will create jobs and further the economic development, but is not sure how to handle the issue.

Mr. Leonard said the variable interest rates are the only ones that could be changed and agreed it needs to be discussed. There are routes staff can look at to lower the cost of funds that assist in this area. There is one large loan that will be coming to the Board in the \$30-million-dollar range.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 3:05 p.m.



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