



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Thursday, July 31, 2014
Anchorage, Fairbanks, Juneau, and Ketchikan, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on July 31, 2014 at 1:32 p.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present in Ketchikan: Chair Dana Pruhs (Public Member); Vice-Chair Russell Dick (Public Member); Susan Bell (Commissioner, Department of Commerce, Community, and Economic Development); and Crystal Nygard (Public Member).

Members participating via teleconference: Angela Rodell (Commissioner, Department of Revenue); and Gary Wilken (Public Member).

3. ROLL CALL: STAFF, PUBLIC

AIDEA Staff present in Ketchikan: Ted Leonard (Executive Director); Chris Anderson (Deputy Director-Commercial Finance); Jim Hemsath (Deputy Director-Project Development & Asset Management (PDAM)); Michael Lamb (Deputy Director-Finance and Operations); Mike Catsi (Business Development & Communications Officer); Karsten Rodvik (External Affairs Officer); John Springsteen (Infrastructure Development Officer); and Sherrie Siverson (Executive Assistant).

Public present in Ketchikan: Trey Acteson (Southeast Alaska Power Agency (SEAPA)); Nick Bowman (Ketchikan Daily News); Ken Collison and Randy MacGillivray (Ucore Rare Metals); Chelsea Goucher (Greater Ketchikan Chamber of Commerce); Randy Johnson (Tyler Rental, Inc.); Graham Neale (Heatherdale Resources); Doug Ward (Vigor Alaska); and Bob Weinstein (Office of Senator Mark Begich).

AIDEA Staff present in Anchorage via teleconference: Bill Phelan (Loan Officer); and Krin Kempainen (Administrative Assistant).

Public participating via teleconference: Rick Adcock, Amy Broughton, and Chris Brown (MWH); Guy Archibald (Southeast Alaska Conservation Council (SEACC)); Cory Borgeson (Golden Valley Electric Association (GVEA)); Tom Delamater and Charlie Sassara (Sitnasuak Native Corporation); Brad Kiefer (Northrim Bank); Heather Herndon (Bokan Mountain); Jerry Juday (Department of Law); and Miranda Studstill (Accu-Type Depositions).

4. AGENDA APPROVAL

The agenda was approved.

5. PRIOR MINUTES - June 4 and June 26, 2014

Mr. Wilken requested the minutes of June 4, 2014, page five, be corrected to read "freight on board," rather than "free on board." Mr. Wilken requested the sentence on page six, "This project has to come in below \$28 to \$30 to be a successful substitution alternative," be deleted or corrected because he thinks it is incorrect. There were no objections to the changes.

MOTION: Vice-Chair Dick moved to approve the June 4, 2014, and June 26, 2014 minutes as amended. Motion seconded by Commissioner Bell.

The motion passed unanimously.

6. PUBLIC COMMENTS

Mr. Bob Weinstein, from the Office of Senator Mark Begich, stated Senator Begich is a strong supporter of both the Bokan Mine and Niblack Mine projects. Senator Begich's staff has monitored the permits for these projects and has had communications regarding the specific nature of the projects. Mr. Weinstein believes both projects have enjoyed very broad support in Ketchikan and Southeast Alaska and will have a positive economic impact.

Ms. Heather Herndon noted she barely heard any of Mr. Weinstein's comments via teleconference and requested a remedy. (Mr. Weinstein was asked to face the teleconference speaker phone.)

Ms. Chelsea Goucher, Greater Ketchikan Chamber of Commerce and Southeast Conference Board, expressed her appreciation to the Board for coming to Ketchikan and for the continued economic development in Southeast and in the state.

Mr. Guy Archibald, SEACC, noted he submitted written documents to the Board. After review of the Ucore Bokan Mine and Heatherdale Niblack Mine, it is the recommendation of SEACC to give these projects a no-go assessment for development loans. Both of the mines are still in the early, highly speculative stage of exploration with no measured or proven ore reserves and neither project has submitted a final economic feasibility study. SEACC does not believe the state of Alaska should be involved in speculative projects. SEACC believes the state of Alaska, having both an interest in these mines through the loan and acting under its capacity as a regulatory agency, sets up a dangerous conflict of interest.

Mr. Archibald noted SEACC believes the Ucore Bokan Mine does not meet AIDEA's Phase One assessment criteria and is incomplete because Ucore does not have a handle on the total costs for the production of rare earth oxides, separation of rare earth oxides, long-term water treatment, long-term bonding and financial assurances. Additionally, the underground tailings disposal is

an unproven technology, given the acidic nature of these tailings and the known groundwater issues in the area. There could be serious long-term water treatment liabilities lasting for centuries.

Ms. Herndon commented she is the first-born grandchild of Robert Red Dotson of the Bokan Mountain claim and will list 10 items regarding Ucore: 1) Ucore violated securities law in their own country between 2010 to 2012; 2) Ucore has a relationship with Agora Financial that the SEC was investigating for insider trading; 3) Ucore failed on its last three mining deals; 4) Ucore has not earned one dollar of revenue on their financial statements; 5) Bokan Mountain does not own all the mining claims and has intent to sue Alaskans for their mining claims; 6) Ucore's capitalized mining claims are questionable since they ceased paying \$60,000 annually to the Dotson family estate; 7) Ucore's only superior asset is Bokan Mountain worth \$25 million and provides no other security if they default; 8) Ucore's audited financial statement does not show any buyer contracts; 9) Ucore was not interested in discussing local hire with Ms. Herndon; and 10) Ucore's CEO Jim McKenzie has interfered with the Dotson family private affairs. Ms. Herndon does not believe Ucore is the answer to the state's needs.

7. NEW BUSINESS

7A. Loan Resolution No. L14-03 Bonanza Fuel, LLC

Commissioner Bell recused herself from the discussion on Item 7A, the business affiliation with Bonanza Fuel, because she is a Sitnasuak shareholder. There was no objection.

MOTION: Vice-Chair Dick moved to approve Resolution No. L14-03 Bonanza Fuel, LLC. Motion seconded by Ms. Nygard.

Mr. Leonard said Resolution No. L14-03 is requesting AIDEA to purchase a loan participation with Northrim Bank for \$7,312,500 of an \$8,125,000 loan, which is a 90/10 participation. Ms. Anderson and representatives from Northrim were invited to provide further details on the loan and answer questions from the Board. Ms. Anderson explained Sitnasuak Native Corporation is the guarantor and the loan is for long-term financing for the 2.3 million-gallon expansion of their petroleum storage facility in Nome.

The project generated 15 construction jobs and will create three permanent jobs. AIDEA would take a first lien position on the storage facility for collateral, a deed of trust, and a UCC filing that will encumber the real estate of 7.9 acres, the improvements of nine storage tank facilities and five metal support buildings, and the equipment for the facility. The project was appraised at \$11.3 million. All environmental issues mentioned have been resolved to the satisfaction of the lender. There is a related debt that has been approved, but not funded, in the amount of \$6,637,500 and is guaranteed by Sitnasuak. It is anticipated to close the third week in August. Benefits to the project include the borrower's debt service coverage is very strong and their management and business operations have a successful history. The weaknesses include the inherent environmental risk to this type of property, but the history of responsible operations and insurance for spill leakage help mitigate those risks. There will probably be competition from

other suppliers that could squeeze margins, however the borrower will be able to sell a higher volume of product at a lower margin and still be profitable. Ms. Anderson noted AIDEA currently has no representation statewide of this kind in their portfolio. There are sufficient funds allocated under the loan participation program for this request. Staff recommends approval of the resolution as presented.

Vice-Chair Dick asked what the delay in the funding of the related debt is. Ms. Anderson said the borrower has not yet termed out the loan, but the construction project is completed. Chair Pruhs asked if there is a specific amount of environmental insurance the borrower has to maintain for the project and is AIDEA additionally insured. Ms. Anderson noted AIDEA would be an additional insured. Mr. Delamater stated the pollution liability is \$6 million per occurrence and \$8 million in aggregate. Chair Pruhs asked if a third-party has provided an analysis on the amount of coverage needed. Ms. Anderson believes the coverage should be one-for-one and insurance coverage is for both the value of the assets and the pollution liability. Ms. Anderson asked Mr. Kiefer if Northrim has any kinds of conditions as to minimum insurance requirements. Mr. Kiefer stated there are no minimum insurance requirements for the pollution liability and will take AIDEA's recommendation on the appropriate amount.

Chair Pruhs asked who the other competitors are in this market, what type of fuel will be stored and where does it come from. Ms. Anderson noted Crowley is the main competitor. The diesel fuel is sold for marine, home, and business heating. Mr. Sassara stated the fuel is bought from a competitive marketplace sometimes from Nikiski. Chair Pruhs asked if the fuel could have been purchased from Petro Star in Valdez. Mr. Sassara stated he is not certain, but it could have been purchased from Petro Star in the past. Mr. Sassara noted the project is considering offering aviation fuel in 2015. Chair Pruhs asked if the construction is finished. Mr. Sassara stated the tanks are completed and operational.

A vote was called and the motion passed with board members Wilken, Rodell, Nygard, Dick, and Pruhs voting yea.

7B. Overview of Financing a Project Utilizing Bonds

Mr. Leonard explained that Legislative bonding authorization is not telling AIDEA to finance a particular project, but if AIDEA finds a project worthy of funding, AIDEA can utilize bonding as a tool. Mr. Leonard requested Mr. Lamb provide the review of the statutes concerning the bonding authority. Mr. Lamb gave an overview of the steps taken to issue bonds for a project including authorizations and legal requirements. AIDEA must comply with its own due diligence process. Any bonds issued must meet criteria under AIDEA state statutes for issuing bonds. The review of bond authorizations is complicated and limits on bond issuance are imposed by the state. Conduit bonds and bonds for financing AIDEA loan participation do not need specific Legislative approval.

Chair Pruhs asked if the authorization of a bond for a project includes the entire project from beginning to end. Mr. Leonard explained the wording of the authorization determines the latitude and limits of the bond. Chair Pruhs inquired what the percentage of the bond cost is for

a \$6 million to \$10 million bond to obtain the local approvals and pre-bond requirements. Mr. Lamb said that number varies widely because of differing factors, but usually the cost is within a range of 1% to 2%. Chair Pruhs asked if the financial analysis is included in the 1% figure. Mr. Leonard stated the financial analysis is not included in that 1% and would be done through the feasibility stage and can be reimbursed by the project sponsor.

Ms. Nygard requested clarification between the use of the word "shall" and "must." Mr. Lamb stated there are provisions in the statute outlining the kinds of information AIDEA should have and submit in the finance plan.

Chair Pruhs asked who consults with the Board to determine the financial parameters and interest rates of the bonds. Mr. Leonard stated the bond council and the underwriters provide estimates and consultation during the entire process. Chair Pruhs asked what percentage of liquid assets is necessary to maintain the AA+ rating. Mr. Lamb noted 25% of the outstanding general obligations bonds has to be in liquid investments that mature within less than one year. Chair Pruhs asked where AIDEA stands with its AA+ rating compared with public corporations. Mr. Leonard noted AIDEA holds a top rating compared to the industry.

7C. Presentation - Ucore Bokan Mine

Mr. Leonard introduced Mr. Ken Collison from Ucore Bokan Mine, who provided a detailed PowerPoint presentation on rare earth elements, their uses, the indicated and inferred resources at Bokan-Dotson Ridge Mine and the estimated project timeline.

Chair Pruhs asked if there is a degradation value on the tailings. Mr. Collison noted the tailings would make good building aggregate, but it is not hard enough to repave roads. He said the tailings are not acid-generating. The project would have a very small footprint and there will be no tailings on the surface at completion. Chair Pruhs asked what is anticipated to happen to the price once this volume of product is introduced to the current market. Mr. Collison noted there may be some impact, but being the only heavy rare earth producer in North America, there will not be any problems getting customers. The industry is expanding and the consumption is increasing. Mr. Collison stated Ucore has a contract with the Department of Defense.

Ms. Nygard asked for the current population numbers around the mine area. Mr. Collison believes the Ketchikan population has probably decreased within the last 10 years and could be around 13,700.

Chair Pruhs inquired how much Ucore has invested to date on the project. Mr. Collison believes it is around \$45 million.

7D. Presentation - Heatherdale Niblack Mine

Mr. Leonard introduced Mr. Graham Neale, Project Manager for Heatherdale Resources, who provided a detailed PowerPoint presentation on the Heatherdale Niblack Mine, including its potential metallurgical results, the mining and processing facilities, dock and associated transport infrastructure, due diligence and baseline data collection, and estimated project timeline.

Chair Pruhs asked what chemical will be used for floating. Mr. Neale noted the two types of concentrate are copper and zinc, both would contain silver and gold. Chair Pruhs asked if the gold is separated out. Mr. Neale stated the gold would go into the concentrate and would be processed elsewhere. Chair Pruhs asked how is the container ship loaded at Greens Creek. Mr. Neale explained the conveyor shown in the picture loads the container ship. Chair Pruhs asked if the loader was solid or if it moves. Mr. Neale noted the loader appears to be fixed. Chair Pruhs asked if the same copper product is loaded out of Skagway. Mr. Neale believes it is similar with less silver component.

Ms. Nygard asked what the options are for the mill site's source of power that will conform to EPA's air quality permit. Mr. Neale noted there is currently hydropower at the mill site and there is a submarine cable that was installed for the previous tenant and never used.

7E. Executive Session - Interior Energy Project, Potential Legislation:

MOTION: Vice-Chair Dick moved to go into Executive Session to discuss confidential information related to the Interior Energy Project and potential legislation. Motion seconded by Ms. Nygard. The motion was approved.

The Board entered the executive session at 3:40 p.m. The Board reconvened its regular meeting at 4:46 p.m. Chair Pruhs stated no formal action was taken during executive session.

8. DIRECTOR COMMENTS

8A. Director's Status Report

Mr. Leonard noted the reports included in the Board's packet and he is available to answer any questions. Mr. Leonard expressed his appreciation to the Board for traveling to Ketchikan.

Chair Pruhs commented it was interesting to see the positive value of AIDEA's investment in a small community. He was excited to see the forward thinking of the community.

Ms. Nygard expressed her appreciation for the invitation to travel and visit the sites. She believes the community has a good, balanced model for economic development.

8B. The next regularly scheduled board meeting will be Monday, August 11, 2014 at 10:00 a.m.

9. BOARD COMMENTS

Mr. Wilken expressed his appreciation for being allowed to attend via teleconference.

Chair Pruhs expressed his appreciation to the folks in Ketchikan for their hospitality and input. He is looking forward to visiting the projects. He thanked AIDEA staff for preparing the remote meeting.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 4:50 p.m.



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