



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Thursday, March 26, 2015
Anchorage and Juneau, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on March 26, 2015 at 10:01 am. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present: Chair Dana Pruhs (Public Member); Vice-Chair Russell Dick (Public Member); Fred Parady (Deputy Commissioner, Department of Commerce, Community, and Economic Development (DCCED)); Crystal Nygard (Public Member); and Gary Wilken (Public Member).

Members participating via teleconference: Jerry Burnett (Deputy Commissioner, Department of Revenue).

3. ROLL CALL: STAFF, PUBLIC

AIDEA and AEA staff present: John Springsteen (Executive Director AIDEA); Ted Leonard (Director Emeritus); Chris Anderson (Director-Commercial Finance); Mike Catsi (Director-Business Development & Communications); Mark Davis (Chief Infrastructure Development Officer); Jennifer Haldane (Director-Human Resources); Jim Hemsath (Director-Project Development & Asset); Michael Lamb (Chief Financial Officer); Matt Narus (Project Manager-PDAM); Tom Erickson (Chief Procurement Officer); Karsten Rodvik (External Affairs Officer); Sherrie Siverson (Executive Assistant); Krin Kemppainen (Administrative Assistant); Kirk Warren (AEA Project Manager); and Karl Reiche (AEA Project Manager)

Public present: Bob Shefchik (Interior Energy Project); Jerry Juday (Department of Law); Miranda Studstill (Accu-Type Depositions); Elwood Brehmer (AK Journal of Commerce); Benjamin Johnson and John Martinek (BlueCrest Energy); Steve Klein (First Infrastructure); Sterling Gallagher (Governor's Office); Tim Gallagher (HDR); Chris Brown (MWH); Alan Bailey (Petroleum News); Dean Clowers (Summit Fund, LLC); Jeff Tickle (Wells Fargo); Jan Sieberts (WCM); Mark Gardiner (Western Financial Group); Steve Keen (Great Land Adventures); and Carl Kuhn (Summit Fund, LLC).

Public participating via teleconference: Peter Dickinson and Rodney Wagner (All American Oil Field); Kurt Gibson and Maureen Nelson (Hilcorp); Merrick Pierce (self); and Rick Roeske (Kenai Peninsula Economic Development District).

4. AGENDA APPROVAL

The agenda was approved.

5. PUBLIC COMMENTS (3 minutes per person)

Merrick Pierce from Fairbanks commented the air quality in Fairbanks continues to be a very significant concern. He believes a credible plan for an energy solution must include air quality. Approximately 3,000 to 5,000 wood stoves need to be converted to propane to decrease the particulates in the air. Funds for subsidizing the conversion have to be set aside. Mr. Pierce believes Fairbanks Natural Gas (FNG) customers can be accessed using propane and this could be a solution for rural Alaska and the rural parts of Fairbanks that will never be on a gas grid.

Mr. Pierce does not believe the burner tip price of \$15 is realistic because the amortized conversion cost puts the burner tip price at about \$21. The cost has to be lowered to get the conversions and for the gas utility to pay for itself. Mr. Pierce believes AIDEA needs to do a better job of public outreach and updating the website to share with the public the solutions being reviewed regarding the Interior energy problem.

Rick Roeske from Kenai Peninsula Economic Development District expressed support of Bluecrest's loan application. He believes this will create jobs on the peninsula. This is important because job growth has been slowing with the low price of oil within the last two months.

Peter Dickinson with All American Oil Field expressed support of AIDEA's consideration to invest in Bluecrest Energy Cosmopolitan Oil and Gas Development Project. He believes this project has potential to bring more oil and gas supply for Southcentral Alaska. This will provide additional jobs and increased investment to this area. Mr. Dickinson looks forward to a bright future in Southcentral Alaska and the Kenai Peninsula.

Benjamin Johnson, CEO of Bluecrest Energy, stated Bluecrest is in the process of developing the Cosmopolitan project at Anchor Point. This is the largest proven and defined, yet undeveloped, oil field in the Cook Inlet Basin. Bluecrest engineers believe it will take about five to seven years of continuous drilling to reach the oil reservoirs. Bluecrest Energy has applied with AIDEA for a loan to help in the acquisition of the needed large drilling rig. Mr. Johnson understands the application is not on the agenda today, but wanted to introduce himself and Bluecrest to the Board today and offer support to the evaluation of the project.

Chair Pruhs closed the public comments.

Chair Pruhs said Sterling Gallagher from the Governor's Office requested the opportunity to give a presentation. Mr. Gallagher stated AIDEA was originally created to provide development banking and that vision has never been fully implemented. He recommended the AIDEA Board and the Executive Director tour development banks to review and understand their loan processes. He believes development banking is more economic driven than the current AIDEA structure. Mr. Gallagher believes AIDEA is important to the future of the state and the money should not be lost on dividends. AIDEA needs to be built to accomplish its goals.

Mr. Springsteen expressed appreciation for the comments and looks forward to progressing AIDEA into more of a traditional development bank while working effectively with the Governor's Office. Mr. Gallagher stated the vision of rigorous economic analysis will progress AIDEA. Development banks determine and finance the weak links in the economy.

Chair Pruhs requested a planning session for the Board to begin to understand the development banking process.

6. PRIOR MINUTES - February 25, 2015

MOTION: A motion was made by Vice-Chair Dick to approve the minutes of February 25, 2015. Motion seconded by Mr. Wilken.

The minutes were approved as presented.

7. NEW BUSINESS

7A. Resolution No. G15-07 Appointing an Executive Director

Mr. Leonard said Resolution No G15-07 is to appoint a new AIDEA Executive Director. Mr. Leonard is retiring April 30, 2015. The Board has followed a process to select the new Executive Director. The transition process began March 16, 2015. Mr. Leonard expressed his appreciation to the Board for their support during his tenure. He believes the Board has laid a strong platform to move forward to the next level with the new Executive Director.

MOTION: A motion was made by Vice-Chair Dick to approve Resolution No. G15-07 Appointing Executive Director John Springsteen. Motion seconded by Deputy Commissioner Parady.

Chair Pruhs expressed his appreciation to Mr. Leonard for his valuable service to AIDEA. He believes Mr. Leonard has brought an excellent management team to AIDEA.

Mr. Wilken thanked Mr. Leonard and concurred with the remarks of Chair Pruhs.

Deputy Commissioner Parady believes Mr. Leonard has added substantial value to AIDEA.

Ms. Nygard expressed her appreciation to Mr. Leonard for being a great mentor of patience with government policy and bringing forward valuable opportunities.

Vice-Chair Dick echoed the remarks of Chair Pruhs. Vice-Chair Dick expressed his appreciation for the strong foundation Mr. Leonard has set and the challenges he has overcome.

A roll call was taken and the motion was approved unanimously.

7B. Resolution No. L15-03 Summit Fund, LLC

MOTION: A motion was made by Vice-Chair Dick to approve Resolution No. L15-03 Summit Fund, LLC. Motion seconded by Ms. Nygard.

Mr. Springsteen said Resolution No. L15-03 relates to the purchase by the Authority of a participation in a loan to Summit Fund, LLC. He requested Chris Anderson, Director-Commercial Finance, present an overview of the resolution. Ms. Anderson said Resolution No. L15-03 is a request from Wells Fargo and Summit Fund, LLC, for a participation in a \$2,550,000 loan of the total amount of \$2,295,000 for a 25-year term. There are several guarantors of the debt. The loan is for long-term financing for a newly constructed retail building in Wasilla. It is fully leased to a single tenant Petco. Twelve permanent Alaskan jobs and 50 temporary new construction jobs will be created. The property will be managed by Carl Kuhn, Dean Clowers, and Lori Clowers, experienced owners, investors, and managers of commercial property in Southeast Alaska. AIDEA would take a first deed of trust position on the property, which was appraised for \$3,400,000.

Ms. Anderson informed this loan resolution would give a 75% loan to value. An assignment of rents and lease is required subordinate to the deed of trust. AIDEA has related debt and the total related credit is in excess of \$5 million. The cumulative outstanding balance is \$5.8 million. With the addition of this request, if approved, the balance would be \$8.1 million. All loans have been paid as agreed.

Ms. Anderson noted the basic financial information was provided to the Board under separate cover. There are no known environmental issues on this property. The strengths include the acceptable debt service coverage, experienced owners in commercial real estate investments, high certainty of matching lease revenues with the debt service, and potential outside financial support from the guarantors. The weaknesses include the fact of a single tenant, but this is mitigated because Petco is of credit quality as a national tenant and has outside resources. Should a default occur, the property would be subject to a re-marketing time. The location of the property is good.

Ms. Anderson advised AIDEA's current statewide portfolio has 20.6% in retail and would increase to 21.1% with this loan request. Within the Mat-Su region, AIDEA has 18% in retail and would increase to 22.3%. AIDEA has funding capacity for this loan request. Staff recommends Loan Resolution L15-03 for approval.

Deputy Commissioner Parady requested clarification of AIDEA's role and purpose in supporting economic development in long-term financing for a newly constructed retail building. Ms. Anderson stated that the participation loan program is a term loan program with no involvement in construction. The program participation always comes after construction. Deputy Commissioner Parady asked about Wells Fargo's participation for 10 years and AIDEA's participation for 25 years. Ms. Anderson stated AIDEA's niche in the market is the ability to offer 25-year fixed funds. This gives the borrower an understanding of their debt service over time. Commercial lenders do not provide fixed rate financing for that length of time. The length of AIDEA's average loan on the books is seven to eight years.

Deputy Commissioner Parady stated there is a substantial potential Alaska is entering a recession because of the current fiscal situation. He asked how that risk was evaluated in the context of the repayment ability of the tenant and the vacancy of big box stores. Ms. Anderson believes Petco has financial strength as a company. The downside risk was considered and analyzed. The property was found to be well-located. Deputy Commissioner Parady believes it is the Board's responsibility to increase the intensity of awareness of the changing market conditions of the state.

Ms. Anderson noted the delinquency rate is .44%, which is one loan out of 250-plus loans.

A roll call was taken and the motion was approved unanimously.

**7C. Resolution No. G15-06 Approval of Demolition of the Blues Central Building
MOTION: A motion was made by Vice-Chair Dick to approve Resolution No. G15-06.
Motion seconded by Ms Nygard.**

Mr. Springsteen invited Karl Reiche, Project Development Director, to report on Resolution No. G15-06. Mr. Reiche informed a proposal for the demolition from Rim Architects has been received for \$60,000.

Mr. Wilken requested a friendly amendment to the motion so the resolution conforms with the narrative. The fourth whereas statement says, "Staff will submit a separate funding request for the construction phase." Mr. Wilken requested the statement read, "Staff will submit a separate funding request for the demolition and construction phases." Mr. Reiche agreed.

Mr. Wilken asked how this resolution affects the bigger plan for expansion of the property. Mr. Reiche noted the remodel and addition plan called for an addition to the building on the west side, but the expansion efforts are currently on hold. The Blues Central lot will be opened up for future construction.

A roll call was taken and the motion was approved unanimously.

7D. Interior Energy Project Update

Mr. Springsteen introduced Bob Shefchik of Interior Energy Project who provided a detailed PowerPoint giving the status update. Mr. Shefchik noted this presentation was prepared for the House Resources Committee and will be presented today to the Senate Energy Committee. The goals of the project were stated.

Deputy Commissioner Parady noted the third bullet point of the goals to lower PM2.5 in nonattainment areas of the Interior directly addresses the previous public comment concerning air quality in Fairbanks.

Mr. Shefchik explained clearly the North Slope project under the Concession Agreement did not proceed because it did not pass AIDEA's due diligence process and Board approval. AIDEA's

due diligence process was outlined. Mr. Shefchik reviewed the changes in the Alaska natural gas and LNG markets from 2013 to 2015, including the differences between North Slope and Cook Inlet projects. The conclusion is if affordable natural gas is available, a Cook Inlet LNG project is favorable. As this process goes forward, Mr. Shefchik expects to compare both a North Slope project and Cook Inlet project. The approach has not changed in looking for the private developer, private trucking contractors or Alaska Railroad, and the storage, regasification, and distribution. AIDEA will also consider other alternatives including a FlexSteel option or propane option.

Mr. Shefchik showed a characterization of the known reserves, gas availability, and the annual demand for Cook Inlet, Agrium, and the Interior. Mr. Shefchik explained HB 105 offers flexibility within the state to source the gas. He noted HB 105 does not increase funding nor investment authority. HB 105 does not alter any AIDEA policies of supporting the private sector, nor does it change the intent or the goals of IEP. Mr. Shefchik informed the team continues to move forward with the project execution plan. The issuance of the RFI for gas and the RFP for liquefaction will be concurrent in approximately 30 days. Storage and transportation logistic and cost estimates are ongoing.

Chair Pruhs stated the current supply of 20% is being provided to the Interior. He asked for the timeframe of reaching a 100% build-out. Mr. Shefchik noted the demand curve study sets a six-year growth to 73% of the total conversions. This has been updated to about seven years or eight years. The first five Bcf would be in the initial five years and 40% of that is electric utility GVEA and 60% is residential. After this summer, there will be approximately 30 miles of pipe build-out remaining to accomplish the first five Bcf capacity, which is the core build-out for Fairbanks and North Pole. Mr. Shefchik informed work continues on optimizing the pipe and system. Mr. Leonard noted the piping for 1,100 structures in Fairbanks has been laid. Mr. Shefchik stated the full build-out of piping will reach a total of 12,700 structures. Most of these are residential and half of them will be reached by the end of this year.

Mr. Shefchik reviewed the June 30 targets. There will not be a firm gas supply agreement, but the goal is to have a term sheet level with a secure supplier. There will not be a selected partner, but the first step of the partner solicitation should be completed. The Pentex acquisition will be complete. When the partners are identified, the timeline and component pricing can be determined. Mr. Shefchik noted two pieces of good news recently include the House Speaker removed one of the committee assignments for HB 105, which is a good indication discussion is occurring, and the Governor announced that Interior energy legislation is one of his top two items for the end of the session.

Ms. Nygard requested further explanation of the gas supply agreement timeline and market participants. Mr. Shefchik stated a request for information or an expression of interest solicitation to all the suppliers of gas is being let out by DCCED within approximately 30 days. Negotiations will take an additional 30 to 60 days to get to a term sheet level. Chair Pruhs asked if the utilities will be part of the negotiations. Mr. Shefchik advised the utilities will be informed of the progress and the near-final draft of the RFP from AIDEA. The utilities' comments will be used as part of the edits to ensure the solicitation matches the utilities' expectations and goals.

Ms. Nygard asked for Mr. Shefchik's observations regarding the general fund (GF) tax credits that will sunset in the fall. Mr. Shefchik agreed the tax credits have played a significant role, but did not accomplish everything that was intended. Helpful discussions have been occurring with Southcentral legislators regarding Cook Inlet tax credits and the increase of statewide support and interest in the price and availability of Cook Inlet gas. Mr. Wilken asked for the amount of GF tax credits this year. Mr. Shefchik informed the GF tax credits this year are \$300 million. Next year, the tax credits are anticipated to be \$400 million, which is within the top five single line items in the budget.

Chair Pruhs asked if there are additional facilities that could increase the LNG gas volume and help decrease the price. Mr. Shefchik noted he is not aware of any new expressed interest. Potential market customers include anyone who is using oil-based energy and is on the road system. Mr. Shefchik believes Fort Wainwright is a more likely customer than Eielson.

Mr. Wilken requested the Board be provided with a brief paragraph or a chart update on the project to communicate the active analyses including FlexSteel and propane. Mr. Shefchik stated he will provide the Board with the ideas that have been received. The analysis will occur during the RFP process. Mr. Wilken asked Mr. Shefchik's opinion on the downside of focusing only on a trucking component, and letting the railroad bring forward cost estimates after their rail is completed. Mr. Shefchik believes it adds value to have ongoing discussions and to provide pertinent information for the railroad to develop their model. The use of the train is dependent on the liquefaction source location.

Mr. Wilken asked for an update on the tanker options. Mr. Shefchik said the 13,000-gallon tanker will soon be tested and approved in the state, then the 5,000-gallon tanker pup will be reviewed.

Deputy Commissioner Parady requested comment on the recent news reports that the University of Alaska Fairbanks (UAF) coal plant expansion is over budget and a potential change in fuel source to LNG may occur. Mr. Shefchik noted the UAF demand is approximately 1.1 Bcf a year, with a strong seasonal swing to the winter. The discussion on the likelihood of a potential change to LNG was probably over-reported. Mr. Shefchik stated he is familiar with the project because he worked on it previously. The main design choice made was to go from two boilers to a single boiler, which shrinks the footprint of the building and the cost of the boiler. That single design change brought the solid fuel project back within budget and optimization of that design continues. UAF reran the analysis conducted in 2010 with the current numbers, and the solid fuel project was still the better choice. Deputy Commissioner Parady requested to see that analysis. Mr. Shefchik agreed.

Deputy Commissioner Parady inquired about the process and mechanics of customer hookup. Mr. Shefchik explained the process is voluntary. The two mechanisms that will affect the hookup are the price of the gas and the cost of conversion. The polling and focus groups' responses are split about 50/50 between residents who would pay for conversion themselves if the gas was at a low cost and those who could not afford to pay for conversion. Work is ongoing

to partner with local banks to provide on-bill pay programs to finance conversions. The structure under consideration is the borough would provide a financing backstop for default for the first 2.5% or 4% for a 10-year financing at a 3% rate.

Deputy Commissioner Parady asked how the process can be left as voluntary when it is a public health crisis. Mr. Shefchik noted that is a serious question and the push for alternate fuel sources is legitimate. To date, neither the state nor the borough has been willing to address the issue of requiring no wood to be burned in a home that has access to both wood and oil in the event of air quality issues.

Chair Pruhs asked if the valuation of the home is anticipated to be higher once a conversion is completed. Mr. Shefchik informed the plan is to highly encourage the local assessors and appraisers to value a home higher once a conversion is completed. Currently property tax assessments do not have a mechanism to value different utilities. Mr. Shefchik believes the marketplace will show a preference to houses with lower cost fuel.

Chair Pruhs requested information regarding the idea of an incentive tax credit for people who have converted. Mr. Shefchik stated there are two interested and involved assembly members participating in the conversion program and the borough is looking for ways to incent. Mr. Shefchik noted he is not a member of the committee and does not have information on any specifics of that idea.

Mark Gardiner of Western Financial Group and Ted Leonard provided a report on the status of the due diligence and project potential Pentex acquisition. Mr. Gardiner noted confidential details regarding negotiations will be discussed during executive session. The activity areas include the due diligence status, the acquisition timeline, and the business/transition plan. The legal, regulatory, and financial due diligence are largely completed. A third-party valuation consultant is preparing a draft analysis of the price-to-book value and price-to-income value. The documentary portion of the technical/environmental due diligence is largely completed. The team conducted a site visit at the Point MacKenzie plant yesterday and will conduct a site visit at the Fairbanks facilities next week. A Phase I environmental site assessment of the plant was conducted by Hilcorp at the end of last year and has been provided to the team.

Chair Pruhs requested the Board members be given an opportunity to tour the Pentex assets prior to any decision-making. Mr. Leonard agreed.

Mr. Gardiner advised the risk analysis will be prepared and brought forward as part of the financing plan. AIDEA and Pentex entered into a letter of intent (LOI) in late January. Legal counsel is close to completing the negotiations on the first draft of the agreement. The financing plan is on track to be drafted and come before the Board with documents for review and approval at the April or May meetings. Currently, the target timeline for closing is in the third quarter of 2015.

Mr. Gardiner discussed the business/transition plan and stated this development project is financed under 44.88.172, in which all the LLC memberships will be acquired. Local

community support will be sought to enable the consolidation of the natural gas distribution system in the borough and to plan for a transition over 18 to 24 months to local entity control. Mr. Shefchik noted he is tasked with bringing the Board three local entity opportunities, including their pros, cons, and the community buy-in. The rules for AIDEA's business target return for this type of project is 5.30%.

Chair Pruhs expressed his appreciation for the presentation and the efforts of the presenters.

MOTION: A motion was made by Vice-Chair Dick to go into Executive Session to discuss confidential information related to the Interior Energy Project and confidential financial information related to a potential development finance project. Motion seconded by Ms. Nygard. The motion was approved.

**7E. Executive Session - Interior Energy Project discussion: 12:01 pm
Discuss confidential financial information for a potential development finance loan.**

The Board reconvened its regular meeting at 3:33 pm.

Chair Pruhs stated no formal action was taken during executive session.

8. DIRECTOR COMMENTS

8A. Loan, Dashboard Report and Delinquencies to Outstandings Reports

Mr. Springsteen stated he is looking forward to continuing to serve the State of Alaska in his new role. He expressed his appreciation to the Board for their guidance and for inheriting the strong senior management team. He thanked Mr. Leonard for continuing with AIDEA and serving as his coach and mentor through this transition. Mr. Springsteen informed the loan, dashboard reports, matrix, and calendar are included in the Board packet.

8B. Infrastructure Development and Project Development & Asset Management - Matrix of Active Projects and Prospective Projects/Feasibility Studies

Mr. Springsteen introduced Jim Hemsath, Director Project Development & Asset, who provided a brief update of the Project Development & Asset Management Division. There is a current reimbursement agreement with Furie and due diligence continues. The intent is to bring a project before the Board at the May meeting. Mr. Springsteen will provide interim reports of that process. The FedEx project is working through the system and the extended lease to 2023 is expected to be signed next week. The Mustang Two injection well is completed. Mustang Three, a third well, should be completed in a few weeks. Production tests will then occur on Mustang One. Procurement, engineering and funding is on schedule and appropriate.

Mr. Hemsath informed the Division has been helping Alaska Natural Resources to Liquids Company (ANRTL) review a gas-to-liquids (GTL) project. This stemmed off of a GTL study that was completed for the state for Representative Mark Neuman. A special case study was also run on a micro-scale GTL plant in the North Slope, which turns out to be very economic from the consultant's perspective. This is not yet a full project. The possibility exists this plant would

sit on the LNG plant on the North Slope. BP has also inquired about renting pad space for storage this summer. Chair Pruhs recommended having only one entity rent pad space in the event there is a problem. He noted there are predicated lease rates and offered help with the rates. Mr. Hemsath noted the Endeavor issues are expected to be completed this week.

Chair Pruhs expressed his appreciation to Mr. Hemsath for his excellent work.

Mr. Wilken asked if the Ambler Mining District Road is sitting idle now. Mr. Springsteen informed AIDEA is currently complying with the Administrative Order 271 and is awaiting direction. Mr. Wilken noted regulations for the Arctic Infrastructure Fund will come before the Board in April. He requested a layman's interpretation and explanation of the regulations for the Board. Mr. Springsteen agreed.

8C. Continuing Education Calendar

Executive Assistant Sherrie Siverson should be contacted if Board members are interested in any continuing education opportunities. Mr. Springsteen noted AIDEA is a prime sponsor of the October IEDC Annual Conference which will be held in Anchorage October 4-7, 2015.

The next AIDEA board meeting is scheduled for Thu. April 30, 2015.

9. BOARD COMMENTS

Ms. Nygard commented she is pleased to see support for a loan coming from a Fairbanks local bank.

Vice-Chair Dick welcomed Mr. Springsteen into his new position.

Chair Pruhs noted he is looking forward to being challenged by Mr. Springsteen in searching for new opportunities and ideas.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 3:42 p.m.



John Springsteen, Executive Director
Alaska Industrial Development & Export Authority