



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Thursday, January 11, 2018
Anchorage, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on January 11, 2018, at 11:53 a.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present: Chair Dana Pruhs (Public Member); Vice-Chair Russell Dick (Public Member); Mike Barnhill (Deputy Commissioner, Department of Revenue [DOR]); Fred Parady (Deputy Commissioner, Department of Commerce, Community, and Economic Development [DCCED]); Elaine Brown (Public Member); Bernie Karl (Public Member); and Gary Wilken (Public Member).

3. ROLL CALL: STAFF, PUBLIC

AIDEA Staff present: John Springsteen (CEO/Executive Director); Chris Anderson (Commercial Finance Director); Brenda Applegate (Chief Financial Officer); Mike Catsi (Business Development & Communications Director); Mark Davis (Chief Infrastructure Development Officer); Jim Hemsath (Project Development & Asset Management [PDAM] Director); Liz Greer (PDAM Project Manager); Yulia Ellsworth (Assistant CFO/Controller); Tom Erickson (Chief Procurement Officer); Leona Hakala (Loan Officer); Karsten Rodvik (External Affairs Officer); Jeff San Juan (Infrastructure Development Finance Officer); Linda Senn (Human Resources Manager); Lori Stender (PDAM Project Manager); Gene Therriault (Interior Energy Project [IEP] Team Lead); Sherrie Siverson (Executive Assistant); and Krin Kempainen (Administrative Assistant).

Public: Bart Armfield (Brooks Range Petroleum Corp [BRPC]); Alan Bailey (Petroleum News); Connie Ballow, Rick Ballow, and James Williams (Totem Inn); Tim Bradner and Elwood Brehmer (AK Journal of Commerce); Mark Gardiner (PFM Group Consulting); Jerry Juday (Department of Law [DOL]); Sunny Morrison (Accu-Type Depositions); Blake Phillips (Alaska Permanent Capital Management [APCM]); and Will Stark (First National Bank Alaska [FNBA]).

Public participating via teleconference: David Prusak and Jomo Stewart (Interior Gas Utility [IGU]).

4. AGENDA APPROVAL

The agenda was approved as presented.

5. PUBLIC COMMENTS

There were no public comments.

6. PRIOR MINUTES - December 7, 2017

The minutes were approved as presented.

7. NEW BUSINESS

7A. Loan Resolution No. L18-01 Totem Inn, Inc.

John Springsteen stated a corrected version of Resolution No. L18-01 was provided to Board members. The resolution regards AIDEA's participation in a loan to Totem Inn, Inc. of \$8.2 million for new construction in Valdez, Alaska. FNBA's participation amount is \$950,000. The financing supports 75 construction jobs, 14 new jobs, and 7 retained jobs.

Mr. Springsteen asked Chris Anderson to present on the resolution. Ms. Anderson stated the borrower is Totem Inn, Inc. and the guarantors are James Williams, Connie Ballow, and Richard Ballow. AIDEA would take a first deed of trust on the property improvements. The property was appraised by North Pacific Advisors for an as-is value of \$13 million. The loan-to-value is 68%. The proposed debt service coverage is 2.29:1. AIDEA would take a UCC filing on the furniture, fixtures, and equipment. There are no known environmental issues. The seasonal economy in Valdez includes tourism, commercial fishing, and construction that peaks in the summer. The year-round economy base includes the marine terminal, Petro Star Inc., and heli-skiing.

Ms. Anderson stated the loan would pay off a construction rebuild loan with FNBA for the Totem Inn that burned down in 2016. The rebuild will increase the room capacity from 30 to 65 rooms. Totem Inn will continue to be managed by the existing owners. The strengths include new construction, very good operating history of the construction company, 68% loan-to-value, and located in an underserved area. The perceived weakness includes being a non-flagged hotel, which is mitigated by creating a payment reserve of \$300,000 until the project reaches a 1.40:1 debt service coverage for a two-year period. Ms. Anderson explained the statewide portfolio diversification for the gulf coast region would increase from 3.38% to 5.32%. The statewide portfolio diversification in the tourism business would increase from 13.95% to 15.67%. Staff recommends the loan for approval.

Chair Pruhs asked if staff have conducted a site visit for this project. Ms. Anderson said staff have not, but Will Stark, FNBA Valdez, has. Inspection reports and pictures from the contractor have been supplied. The completion of the project is anticipated for April.

Mr. Karl stated he saw the progress of construction and the preparation to set modules the last time he was in Valdez. He believes the construction is needed in Valdez, especially since the fire. Mr. Karl suggested the restaurant rebuild start as soon as possible.

Chair Pruhs asked Mr. Springsteen if it is prudent for AIDEA to conduct site visits for loan participations. Mr. Springsteen agreed site visits are prudent for loan participations of a certain size. Chair Pruhs requested site visits be conducted for all AIDEA loan participations of a certain dollar amount determined by staff. He suggested the cost of the site visit be included in the fee section of the loan.

MOTION: Mr. Wilken moved to approve Resolution No. L18-01 Totem Inn, Inc. Vice-Chair Dick seconded the motion.

The motion was approved with members Pruhs, Dick, Barnhill, Brown, Karl, Parady, and Wilken voting yea.

7B. IEP Update

Mr. Springsteen requested Gene Therriault and members of his team as needed present the IEP update. Mr. Therriault noted Board members have received a copy of the January 5, 2018 Quarterly Report submitted to the Legislature. He provided members with an outline of his presentation. Mr. Therriault reviewed the Board-approved expansion of the 5.25 million-gallon liquefied natural gas (LNG) storage project in south Fairbanks for the combined Fairbanks Natural Gas (FNG) and IGU systems. On December 12, 2017, IGU provided concurrence to the storage expansion project. The contract for engineering, procurement and construction (EPC) of the tank, and civil works was signed on December 22, 2017. Negotiations are ongoing regarding the remainder of piping and the re-gas facility. A final determination by the Fairbanks North Star Borough (FNSB) Planning Commission on the land use permit expansion could be decided on January 16, 2018. Brush clearing on the site and run-off trenching has been completed. Digging of the foundation could begin on January 18, 2018.

Chair Pruhs stated his paperwork does not include a construction schedule and he wants to ensure the project is not falling behind schedule because of delays in general contractor negotiations. Mr. Therriault stated his understanding is the project is progressing on schedule to have the tank completed by the middle of 2019, and in operation by January 1, 2020. Chair Pruhs requested a monthly construction schedule for the deliverables be provided at each Board meeting. Mr. Therriault agreed.

Mr. Therriault introduced project engineer David Prusak of IGU, who provided an update on the schedule and contracts for the tank project. The EPC contract for the tank is signed. The site is clear and the trench around the tank excavation area is complete. The conditional use permit is in the process of being amended. The freezing soil portion of the foundation work design is ongoing with the contractor Preload Cryogenics and could begin within three weeks after the completion of the excavation. The long-lead items for the tank have been ordered. The subcontractor for the interior tank is American Tank & Vessel. Great Northwest Contractor has all the site civil work. Golder Contractor is working on the geotechnical portions of the foundation. Arctic Foundation Contractor is providing the freezing soil component. The concrete will be produced locally.

Chair Pruhs stated he read in the Fairbanks paper regarding a design change to a double-walled tank. He requested more information about the decision and when the decision was made. Mr. Prusak explained the original design of a single-walled tank necessitated the construction of a dike around the facility, which needed a bigger footprint for development. Contracting bids came in and the selected contractor provided an attractive fixed price for a dual-walled tank that was competitive to the single-walled tank and allowed for a smaller footprint. Mr. Therriault stated all of the work to-date is within the budget approved by the AIDEA Board and the project is on track to be built within the budgeted amount.

Mr. Therriault stated he reviewed the land-use finishing recommendation for the permit modification request that is pending on January 16, 2018. It is staff's recommendation to the Planning Commission that the request be approved. After the notices were sent to surrounding landowners and posted, FNG was approached by one of the adjoining landowners for a possible sale of their property to FNG. The purchase possibility is sensible and could provide more frontage along a rail spur area. Staff has interacted with the IGU Board for their consultation and approval of a purchase. Additional negotiating details can be revealed during executive session.

Mr. Therriault stated the list of the Department of Natural Resources (DNR) requests under the terms of the Purchase and Sales Agreement (PSA) regarding the North Slope Pad have been completed. Additional information regarding negotiations on a possible sublease of the pad can be discussed during executive session.

Mr. Therriault reported AIDEA has been the lead in finding potential sources of funding to help with future conversions. Property Assessed Clean Energy (PACE) legislation was passed last year and could potentially assist businesses with conversion. Mr. Therriault continues to work on on-bill financing and specifically on a clarification in the on-bill financing statute that would assist residential customers with conversions. He is researching the use of Environmental Protection Agency (EPA) air shed nonattainment grant funds for conversions. IGU is the lead in working with the three local governments on conversion implementation and IGU has engaged a contractor to work on the conversion plan.

Chair Pruhs stated conversions are critical to the success of the IEP project. He believes the community should be in the process of transitioning to clearly take the lead role on all aspects concerning the IEP, and AIDEA will continue to be available as a resource, when necessary. Mr. Therriault stated the transition process is underway. Chair Pruhs noted the difference between project construction/management and conversions, and feels it is necessary to have two separate teams, one to focus on project construction/management, and a community team to focus on conversions and providing information to the public.

Mr. Wilken discussed viewing conversions in two categories: 1) existing customers, and 2) new homebuilders and future customers. He noted the non-supporters of the project have relayed information stating existing customers cannot convert at an economic price. There is a clear and present necessity to debunk the misconceptions and AIDEA can assist in that process. Currently, FNG is not taking on any new customers and is not providing information to interested future

customers. Mr. Wilken believes FNG should use the opportunity to provide an informational packet to new homebuilders or other future customers letting them know FNG wants them as customers, stating the expected price gas will be available in the first quarter of 2020, and listing options the future customers have today. Options can include installation of dual burners, specifications for the extension of a gas line to the right-of-way, and inspections, so the future hook-up is less disruptive. Mr. Wilken stressed the importance of addressing both categories of conversions now and wants to know the name of the primary person in charge of conversion requests. He believes there is a huge amount of work on conversions that has yet to be completed. Mr. Therriault agreed, and believes a combined FNG and IGU informational packet should be created promptly.

Mr. Wilken requested Jomo Stewart provide additional information regarding the IEP update. Mr. Stewart indicated IGU continues to work through strategies regarding the conversion program and planning under a combined utility structure. The recommendations made today at the meeting align with the planning that is ongoing. The IGU research consultant concluded outside funding to subsidize conversions was not currently available and may not be forthcoming. There is no created marketing strategy nor a PR program regarding conversion timing, cost, or availability. IGU recommends new home builders install a new furnace that would be able to utilize a conversion kit, allowing for an easier and cheaper transition. If a new homebuilder were to install natural gas appliances under their own volition and use the alternative fuel of propane, the best recommendation would be to purchase an appliance that has an available conversion kit. Mr. Stewart conveyed IGU will endeavor to more broadly communicate the efforts regarding moving forward with conversions.

Chair Pruhs requested Mr. Therriault, as soon as possible, and before closing, facilitate the assignment of someone at either IGU or FNG as the conversion coordinator. This person would be tasked as the point person to answer questions regarding conversions. Mr. Therriault agreed, he suggested a targeted mailing could go to the households who currently have pipe in front of their houses.

Mr. Therriault stated the obligation to request the Certificate of Public Convenience and Necessity (CPCN) transfer from the Regulatory Commission of Alaska (RCA) was completed. Legislation was introduced in both the State House and Senate to extend the existing bond authorization for another five years, solely because the sunset date is June 30, 2018. A very good meeting occurred with IGU regarding the alignment of accounting systems and reporting to match categories of the previously authorized payments to IGU for gas supply costs, integration and due diligence costs. Mr. Therriault reported he met with Mr. Wilken and Mr. Dodson from the Fairbanks Economic Development Corporation (FEDCO) regarding increased community outreach through a series of prepared op-ed pieces. He provided an update to the Fairbanks Rotary, the Chamber of Commerce, and in December gave a presentation to the FNSB.

Mr. Wilken inquired, for the record, the reason for the abstention of an IGU Board member during the recent vote regarding the gas storage tank. He noted no explanation for the abstention was requested at the meeting. Mr. Wilken expressed concern for the functionality of the board if

this practice continues to be standard operating procedure. Deputy Commissioner Parady commented a board member has a duty to vote in a legislative context.

Mr. Therriault agreed board members have an obligation to make decisions. He stated the IGU Chairman was bothered by the abstention. Mr. Therriault believes the IGU Board has requested a legal review, and asked Mr. Stewart if he has received legal advice. Mr. Stewart stated he has the understanding an abstention vote acts as a no vote, and is allowable under the current IGU Bylaws. Mr. Therriault asked Mr. Stewart if he knows whether or not the IGU Chairman will propose a change so abstentions will not be allowed in the future. Mr. Stewart stated he has not had a direct discussion with the IGU Chairman. Mr. Stewart reported discussions included discouraging abstentions, but if they occur, it was encouraged to provide the reasons for the abstention on the record.

Mr. Wilken requested, for the record, AIDEA Board members and Counsel determine the reasons for the abstention and discuss available options of clear guidelines for future abstentions by IGU board members. Mr. Therriault recommended expressing concern to IGU regarding the voting structure and requesting consideration for a solution.

Chair Pruhs suggested Mr. Therriault and Mr. Springsteen meet with the IGU Director to develop a beneficial solution for future actions. Chair Pruhs requested updates on the progression of the meetings.

Mr. Wilken asked if further discussions have occurred with the EPA since December, addressing conversion assistance. Mr. Therriault stated his only inquiry focused on the grant fund availability. Mr. Therriault noted the timing is probably right to engage Chris Hladick, who is the new head of Region 10.

Mr. Wilken requested a current update on Senate Bill 125. Mr. Therriault conveyed the bill was pre-filed and the referrals will be made on the first day of the session.

Chair Pruhs welcomed new Board member Deputy Commissioner Mike Barnhill and requested he introduce himself. Deputy Commissioner Barnhill expressed pleasure to be serving on the Board and gave an outline of his career history. He began working for the State of Alaska in 1998, and much of that time was as an Assistant Attorney General with the Department of Law. In 2011, he joined the Department of Administration [DOA] as Deputy Commissioner and had a short stint with the Office of Management and Budget in the DOR before returning to the DOA. For the last two years, he has been working as a State Investment Officer with the DOR.

7C. Executive Session: Interior Energy Project, MOC1, Personnel Matters

MOTION: Vice-Chair Dick moved to go into Executive Session to discuss confidential and financial information related to the Interior Energy Project, MOC1, and Personnel Matters. Deputy Commissioner Parady seconded the motion.

The Board entered Executive session at 1:00 p.m. Participants included board members Dana Pruhs, Russell Dick, Mike Barnhill, Elaine Brown, Bernie Karl, Fred Parady, and Gary Wilken. AIDEA staff invited to join the session, at different times, for related topics: John Springsteen, Brenda Applegate, Linda Senn, Gene Therriault, and guests, Bart Armfield, Mark Gardiner, and Jerry Juday.

The Board reconvened its regular meeting at 3:27 p.m. Chair Pruhs stated no formal action was taken on the matters discussed in executive session.

8. DIRECTOR COMMENTS

Mr. Springsteen described AIDEA's core mission to provide financing and investment to support growth and diversification of Alaska's enterprise and industrial economic engines. He is encouraged by the prospects of improved markets for Alaska's resource industries and better access to develop Alaska's resources. Mr. Springsteen welcomed new Board members.

The dashboard, loan, delinquencies-to-outstanding reports, IFD, PDAM project matrices were included in the Board packet. Please contact Ms. Siverson regarding the continuing education calendar.

Key dates include: Orientation for new Board members on February 1, 2018, Strategic Planning Board work session on February 28, 2018, and the next Board meeting on March 1, 2018, all occurring at AIDEA's office.

Chair Pruhs requested Mr. Springsteen discuss with Deputy Commissioner Barnhill AIDEA's asset diversification management, which is currently in bonds, because the stock market is increasing and the portfolio value is decreasing. Mr. Springsteen agreed.

9. BOARD COMMENTS

Mr. Wilken requested Mr. Springsteen provide a written report on the details of the efforts being made by State government and AIDEA in preparation of President Trump's forthcoming infrastructure plan.

Deputy Commissioner Parady conveyed the Governor has put forward a number of items and he will follow-up with staff to get more information. He noted the 0% delinquency rate in the loans. He requested Mr. Springsteen continue the MOC1 process and return with a package for the Board to consider before the next meeting, if necessary.

Mr. Karl stated he does not know when the bonds, approximately \$12 million, are going to be paid off at Bradley. He suggested a project to fix the intertie be researched and committed to now, so those funds can be slated after payment is complete on Bradley.

Deputy Commissioner Parady agreed with Mr. Karl's focus on the topic and recommended it be part of the strategic planning. He discussed the 2014 study that identifies a set of Railbelt improvements, as well as the separate list of improvements held by each of the six utilities.

Chair Pruhs agreed strategic planning leadership is needed and noted having a common Board with AEA is beneficial.

Deputy Commissioner Barnhill expressed appreciation to staff and members for a very interesting first day. He was inspired by the visions articulated for growing Alaska.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 3:39 p.m.



John Springsteen, CEO / Executive Director
Secretary-Treasurer
Alaska Industrial Development & Export Authority