

AIDEA and AEA BOARD
Budget and Audit Subcommittee
Tuesday, September 7, 2021

1. CALL TO ORDER

Chair Albert Fogle called the AIDEA and AEA Budget and Audit Subcommittee to order on September 7, 2021, at 8:45 am. A quorum was established.

2. ROLL CALL OF BOARD MEMBERS, STAFF AND PUBLIC

Members present: Chair Albert Fogle (Public Member) (MS Teams); Julie Sande (Public Member) (MS Teams); and Anna MacKinnon (SOA-DOR) (MS Teams).

Staff present: Curtis Thayer (AEA); David Heimke; Tiffany Janssen; David Kennedy; Alan Weitzner (AIDEA); Kevin Buckland; Dona Keppers (AEA/AIDEA Shared Services); and Stefan Saldanha (Department of Law) (MS Teams).

Public present: Sunny Morrison (Accu-Type Depositions) (phone); and Ken Castner (phone).

3. AGENDA APPROVAL

MOTION: A motion was made by Ms. MacKinnon to approve the agenda. Motion seconded by Ms. Sande.

The motion to approve the agenda passed without objection.

4. PUBLIC COMMENTS (2 minutes per person)

Ken Castner, Homer, expressed that he is pleased to see an expanded agenda for the Budget and Audit Subcommittee (BAS) and that they are taking up business in public. He noted that there are no documents available to accompany the agenda. The minutes from the last meeting are available online, but none of the items that are being discussed today have available documents to help the public follow the discussion during New Business.

Mr. Castner discussed his interest in Item 6C, and stated that great lengths have been taken to try and protect the privacy of clients and the people with whom loans are made. Mr. Castner informed that there is a compelling State law regarding the disclosure of some information and the validity of the loans. He noted that AS 44.88.215 has two exemptions about things that must be disclosed to the public that cannot be kept private. Mr. Castner requested the Subcommittee pay attention to AS 44.88.215.

Mr. Castner noted that in the last Board meeting and at the last Subcommittee meeting, personal privacy was used as a method of trying to achieve some sort of status in executive session. Personal privacy is not something that is included in the law. He indicated that he asked Mr. Thayer and AIDEA/AEA's attorney about whose privacy they are trying to protect.

5. PRIOR MINUTES - June 8, 2021

MOTION: A motion was made by Ms. MacKinnon to approve the June 8, 2021 Meeting Minutes, as presented. Motion seconded by Ms. Sande.

The motion to approve the June 8, 2021 Minutes passed without objection.

6. NEW BUSINESS

A. Update on status of AIDEA and AEA Annual Audit, Financial Statements preparation and timeline

Chair Fogle requested that Alan Weitzner, Executive Director AIDEA, and Curtis Thayer, Executive Director AEA, present the update. Mr. Weitzner requested that Dona Keppers, Chief Financial Officer AIDEA/AEA, discuss the current status for AIDEA and AEA's financial statement preparation. He informed that Eide Bailly was engaged in April to initiate the process of review of AIDEA and AEA's financial statements, with a target date of preparing a final conclusion of those statements by September 30.

Ms. Keppers acknowledged that Eide Bailly is working all areas of the audit for both AIDEA and AEA, and is currently in the final week of field work. Staff understands that the benchmark for the final report was September 30. At this time, there is a minor change. The plan is to provide a workable draft by October 8, and a final draft by October 15. Ms. Keppers informed that staff has a letter from the Department of Administration requesting audited financials by Friday, October 29. She noted that this is the first year for the audit firm, and the first year for herself and several staff members who are working the audit for AEA and AIDEA. Ms. Keppers commented that staff has done an excellent job in providing information for both Authorities. The audit firm has been good to work with and has been very thorough. Daily meetings have occurred with the audit firm and the teams. Good progress is being made. She stated that a little bit of grace time is needed to do a thorough job and to provide good drafts for review in order to submit a final draft by October 15.

Mr. Weitzner asked Ms. Keppers to review the timeline of what dates the draft will be prepared for review by the BAS Committee prior to submission to AIDEA's and AEA's full Boards for review. Ms. Keppers informed that on page two of the FY21 Audit, the internal year-end schedule, has been updated. Staff is currently in the final field work, Week Three, September 6. She noted that the workable draft can be provided by October 8. A final draft can be submitted to the Department of Administration, Legislative Audit, and BAS by October 15. Ms. Keppers stated that the final report can be ready for the Board on October 27, which is prior to submitting the final financial statements on Friday, October 29.

Ms. Keppers asked Mr. Weitzner if the BAS meeting has been scheduled prior to October 27. Mr. Weitzner stated that the schedule information is necessary to define the BAS meeting date to review the final workable draft before it goes to both AIDEA and AEA Boards. Ms. Keppers informed that a final draft will be available for review on Friday, October 15. Mr. Weitzner asked the BAS regarding what date they want to meet to review the final draft of both AIDEA and AEA financial statements in order to provide a recommendation to be presented to the full Boards for approval.

Mr. Fogle asked first if the Committee members have any questions for Ms. Keppers.

Ms. MacKinnon commented that a timeline was set within the contract with the new vendor so that the Board, the BAS, and the general public would have time to review the documents prior to submission. She requested clarification from Mr. Weitzner that only the Board and the BAS review the documents prior to public release. Mr. Weitzner agreed. Ms. MacKinnon discussed that the contract contained a timeline so that there was additional time for review of the documents. She asked if her recollection is correct and that the contract statement does include this concern.

Mr. Weitzner responded that the contract undertaken with Eide Bailly focused on the conclusion of the financial statements by September 30, to allow sufficient time for review internally and to provide to the Department of Finance. Mr. Weitzner indicated that Eide Bailly has requested a delay. They are new to the organization and are learning AEA and AIDEA's facilities and programs for their first review. Mr. Weitzner does not anticipate that a similar delay would occur next year. This seems to be an issue of Eide Bailly being new to the audit. There is an additional delay due to not receiving the information from the Department of Finance on the pension programs in the initial time period. The target deadline has been delayed two weeks from September 30 to October 15. Staff has a letter from the Department of Finance which was provided in June, and is targeting receipt of the final statements by October 29.

Ms. MacKinnon appreciated the explanation and hopes that Ms. Keppers will relay to the vendor that one of the reasons that a date was included in the contract was because it was important to the Board to have sufficient time. Ms. MacKinnon stated that she hopes one year through the process will create compliance with the contract in the following year. She understands the circumstances if documents were not received that were needed and that this modification needs to be allowed. Ms. MacKinnon highlighted that the dates were important to the Board. Ms. Keppers agreed to relay the information to Eide Bailly.

Chair Fogle inquired as to the next BAS meeting after October 15. Mr. Kennedy informed that the next regularly scheduled BAS meeting is November 9. Ms. MacKinnon suggested the next BAS meeting occur on Tuesday, October 19, from 11:00 am to 1:00 pm. Chair Fogle and Ms. Sande agreed. Chair Fogle asked Mr. Weitzner if an appropriate amount of time for the meeting is two hours. Mr. Weitzner agreed and informed that the auditors would attend the meeting to answer any questions. He stated that public notice will be posted. Chair Fogle requested that the draft document be sent to members on October 15. Mr. Weitzner agreed.

B. Update on Budget Timeline

Ms. Keppers informed that the State budget process continues to move forward. The FY22 Travel Plan was submitted in early June. The FY22 Management Plan was submitted in July. The FY23 Budget Development was submitted last week. The FY21 Final Authorized and Actual Information and the Loan Program Annual Review are due September 10 and September 13. The FY23 Budget Development presentation to DCCED will occur at the end of September prior to the presentation before OMB on October 7.

Mr. Weitzner shared his perspective from AIDEA and requested that Mr. Thayer share AEA's perspective. Mr. Weitzner noted that there have been no material changes from the State to AIDEA's budget elements.

Mr. Thayer advised that there have been no material changes from AEA's last year's budget. The only change that is being resolved is the PCE Endowment. Staff is working with the Department of Administration for approximately \$21 million that is primarily for the Renewable Energy Fund and powerhouses. This would likely mean that the Renewable Energy Program would undergo a Round 14. The Legislature has to approve programs and staff is making preparations for the next legislative session.

Ms. MacKinnon asked if AIDEA has made any requests for small business support or other modifications requested from the Administration for the funds that were saved from the FY23 budget. Mr. Weitzner informed that AIDEA has not made any direct requests to the Administration nor to Department of Commerce, who is the administrator of the funds, for any relief for businesses that AIDEA engages. Additional funding of \$40 million is within the current approved budget for small business relief and is being administered by the Department of Commerce. AIDEA is not engaged in any type of additional AK CARES program in that respect. The target of the relief is specifically the Southeast tourism-related businesses that have been impacted.

Ms. MacKinnon asked Mr. Thayer if discussion has occurred regarding requesting any additional funding to support the electric vehicles (EV) and rounding out the corridor for the electric vehicles. Mr. Thayer informed that there are conversations with the Administration regarding the design of that additional strategy and funding levels for the EV corridor. Mr. Thayer reviewed that there was \$4.7 million for the Renewable Energy Fund that the Legislature did not have time to undertake last session. It is part of this budget and the Renewable Energy Fund will hopefully be approved for \$4.7 million at the conclusion of the special session. Staff is also engaging in preliminary conversations with the Administration regarding the possibility of additional federal funds for renewables.

Ms. MacKinnon commented that she has been reading national newspapers and reviewing articles where the state is reporting that there is \$4 billion that will potentially come to the state in infrastructure dollars. She asked whether the FY23 budget should try to anticipate some funding availability and request authorizations should the package pass for the corridor and other project opportunities that AIDEA could support. Mr. Thayer explained that the conversations with the Administration regard providing a state match for federal funds and identifying the appropriate amount of funding for that purpose.

Chair Fogle asked if either Mr. Weitzner or Mr. Thayer will be presenting the Proposed FY23 Budget at the September 30 Board meeting. Mr. Thayer answered that the budget is confidential and deliberative and will not be presented on September 30. It is the Governor's budget. The Governor will have discussions with OMB and then will present the budget on December 15, 2021 to the public. Neither Mr. Thayer nor Mr. Weitzner will know what is in the final budget until it is publically announced.

C. Loan Portfolio and Loan Modification Update

Mr. Weitzner requested Tiffany Janssen, AIDEA Commercial Finance Director, to provide the update on the current status of the loan portfolio and the loan modifications. Ms. Janssen explained the process that was followed to produce the report. The actual payments from each modified loan beginning in 2020 were input and the results were provided to members. Mr. Weitzner informed that none of the confidential loan information will be shared. He highlighted that AIDEA has implemented over 80 loan modifications on the underlying portfolio. The total loan participation portfolio balance is approximately \$460 million. Loan modifications have occurred on 44% of the portfolio, approximately \$199 million. The cash impact to AIDEA has been from the modifications implemented, either as deferred principal payments or deferred principal and interest payments. AIDEA has incurred a cash impact to its operations from the modifications from the loan participation portfolio and direct project finance loans of about \$13.7 million.

Mr. Weitzner noted that this is a public session and requested Ms. Janssen provide a general update on the status of the current portfolio. Ms. Janssen discussed that the portfolio is getting better each month. She noted that a lot of the borrowers are still receiving money from federal grant programs. The number of modifications has steadily declined from the height of the pandemic and since the beginning of the year. Monthly conversations are ongoing with the remaining modified borrowers to ensure that they are ready to proceed when their modifications expire or to discuss additional modifications. Some of the industries that have needed modifications and subsequent modifications into 2021 include hospitality and cruise ships. The loan modifications are improving, but will continue for the foreseeable future.

Ms. MacKinnon expressed appreciation for the presentation. She is happy to hear that the requests are declining.

Chair Fogle thanked Ms. Janssen for the presentation and for the continued forward-looking attitude toward the loan modifications.

Mr. Weitzner informed that there are 14 extended modifications that the BAS has been reviewing, out of which 11 are currently outstanding. A few modifications are expected for BAS review this month and next month. This is an improved reduction from the initial number of 88 modifications.

Chair Fogle asked for staff to describe the process used to follow-up on existing loan modifications to ensure the guidelines are observed. Ms. Janssen noted that she joined staff in April and a major focus since that time has been tracking the modifications on a normalized basis. Emphasis has been placed on keeping in contact with the lender and officer on the note, and directly with the borrower in many cases. This constant relationship occurs on a monthly basis to understand the financial status of the borrowers and to devise a proactive plan in the event extra help is needed. These issues are then brought before the BAS on a timely basis.

MOTION: A motion was made by Ms. MacKinnon to enter into executive session to discuss confidential matters related to AIDEA and AEA Annual Audit and Loan Portfolio and Loan Modifications Risk Analysis. This is supported by the Open Meetings Act, AS 44.62.310, which allows a board to consider confidential matters in executive session. In this case, the Board believes that these are subjects which would have an adverse effect

upon the finances of AIDEA or are protected by law due to rules protecting personal privacy and certain business information. Motion seconded by Ms. Sande.

The motion to enter into executive session passed without objection.

7. EXECUTIVE SESSION: 9:22 am

AIDEA & AEA Annual Audit and Loan Portfolio & Loan Modifications Risk Analysis

The Subcommittee reconvened its regular meeting at 9:55 am. Chair Fogle advised that no decisions were made while in executive session.

8. BOARD COMMENTS

Ms. MacKinnon expressed appreciation to staff for their hard work and to the public for following the meetings and discussions.

Chair Fogle echoed the comments of appreciation to staff for today's meeting, providing the materials, and for doing the good work for Alaskans and Alaskan businesses through the pandemic. He expressed appreciation to the members of the public who are listening online and are being concerned citizens cheering on the banner of AIDEA and AEA.

9. ADJOURNMENT

There being no further business of the Subcommittee, the AIDEA and AEA Board Budget and Audit Subcommittee meeting adjourned at 9:56 am.



Alan Weitzner, AIDEA Executive Director
Secretary