

Alaska Industrial Development and Export Authority  
BOARD MEETING MINUTES  
Wednesday, June 21, 2023  
Anchorage, Alaska

**1. CALL TO ORDER**

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on June 21, 2023, at 10:30 am. A quorum was established.

**2. ROLL CALL: BOARD MEMBERS**

Members present: Chair Dana Pruhs (Public Member); Vice-Chair Bill Kendig (Public Member); Julie Sande (Commissioner, DCCED); Albert Fogle (Public Member); Randy Eledge (Public Member); and Bill Vivlamore (Public Member).

**3. AGENDA APPROVAL**

**MOTION: A motion was made by Vice-Chair Kendig to approve the agenda, as presented. Motion seconded by Mr. Fogle.**

**The motion to adopt the agenda as presented passed without objection.**

**4. PRIOR MINUTES – May 19, 2023**

**MOTION: A motion was made by Vice-Chair Kendig to approve the Minutes of May 19, 2023. Motion seconded by Mr. Fogle.**

**The motion to approve the Minutes of May 19, 2023 passed without objection.**

**5. PUBLIC COMMENTS - None**

**6. NEW BUSINESS**

**6A. Callan Report Summary Presentation First Quarter 2023 Performance Review**

Randy Ruaro, Executive Director and Secretary-Treasurer, introduced Alex Ford of Callan, and requested that he discuss the included First Quarter 2023 Performance Review. Mr. Ruaro asked that Mr. Ford also comment on the differences in dollar returns that could occur through time from even minor, but significant, adjustments in the equity versus fixed income allocation. Mr. Ruaro specifically referenced a presentation provided by Mr. Ford in 2021 regarding the historic returns for AIDEA's portfolio and the projected returns with a portfolio including a 25% allocation of equity investment.

Mr. Ford discussed that at the request of the Board in 2021, Callan provided hypothetical asset allocation scenarios for AIDEA's investment program that included increasing amounts of equity allocation. Back-testing of possible performance outcomes through 2021 were shown. Over a long investment horizon, equity returns are expected to outpace bond returns, which translates

into higher dollar earnings. The caveat is that increased equity allocation is accompanied by massively increased volatility. Mr. Ford explained that Callan, staff, and the Board have been deliberating on the appropriate asset allocation for AIDEA's portfolio. Mr. Ford stated that Callan is available to undergo an asset allocation study to review alternative scenarios that include expected returns, expected risk, and expected outcomes for the portfolio.

Mr. Ruaro commented that the 2021 presentation showed the back-testing of possible performance outcomes with a 25% equity allocation resulted in an approximate 30% increase in earnings over a 10-year to 15-year period of time. Mr. Ford agreed that possible performance outcome through the end of 2021 could have translated to higher portfolio returns. He commented that in 2022, however, markets sold off dramatically. He explained that if the same back-testing was conducted through the end of 2022, the results would be markedly different. He noted the difficulty in isolating calendar year returns.

Mr. Ford discussed AIDEA's investment fund asset structure as shown on page four in the presentation. The Enterprise Development Fund is approximately 37% of the portfolio. It is internally managed and meets immediate expenditures needs. The investments are short in duration, and as expected, do not generate significant returns. The remainder of the portfolio is managed by two external fixed income managers, Alaska Permanent Capital Management and Barrow Hanley. Both of the managers are core bond managers and follow a very conservative approach. Their primary goals are safety, capital preservation, and liquidity. They have met these objectives for AIDEA's portfolio.

Mr. Ford discussed that during the first quarter of 2023, the portfolio increased in market value by approximately \$20 million. This was driven primarily by positive investment returns. He noted that \$7 million in net new investments also occurred during the first quarter. Mr. Ford reviewed AIDEA's investment fund performance over the last five years, as of March 31, 2023. He noted that the presentation shows performance returns gross of manager fees and net of manager fees. Mr. Ford explained the importance of understanding that the returns demonstrate a point-in-time specific reference. The negative returns for the last year and the last three years reflect the historically bad returns for fixed income in 2022. High inflation and the dramatically rising interest rates had negative impacts on bond portfolios. As rates and yields increase, bond prices decrease, which leads to negative total returns. Mr. Ford explained that since yields are higher today than they have been in the past 15 years, the future expectations for fixed income returns are also much higher.

A member asked if Callan can provide Mr. Ruaro the investment fund performance data that includes Callan's fee. Mr. Ford informed that Callan's investment advisor fee is a flat fee of \$39,400. The external manager fees are calculated based on a percentage of assets under management. The net of fees performance sheets give the returns after the manager fees have been paid. The point-in-time performance numbers indicate that over the last year and three years, the fund has not kept pace with inflation. However, the longer-term performance numbers over the last 15 years and 20 years show that the fund has generated returns greater than inflation. This is also illustrated on the graphic on page nine of the presentation.

Mr. Ford gave an overview of the portfolio characteristics of the external managers, including how they approach risk and how they generate returns. The duration is similar to the benchmark and the quality distribution is similar to the benchmark. Over 65% of Alaska Permanent Capital

Management's portfolio is comprised of U.S. Treasuries and government-related investments. By design, Barrow Hanley's portfolio is complementary to Alaska Permanent Capital Management's portfolio and includes a higher allocation to corporate credit investments. Mr. Ford discussed that a high level economic and market overview is included on pages 13 and 14 of the presentation. There were no additional questions.

**MOTION:** A motion was made by Vice-Chair Kendig to enter into executive session to discuss matters listed in AS 44.62.310(c), which includes matters, the immediate knowledge of which would clearly have an adverse effect upon the finances of AIDEA, personnel matters, matters which by law are required to be confidential, matters involving consideration of government records that are not required to be disclosed under the Alaska Public Records Act, as well as matters subject to attorney/client privilege. Each of these matters in Executive Session are supported by the Open Meetings Act, AS 44.62.310 (C.1, 3, 4). Motion seconded by Mr. Fogle.

A roll call vote was taken and the motion to enter into Executive Session passed unanimously.

**6B. EXECUTIVE SESSION: 10:52 am. Personnel, litigation, project updates, including Ambler Road, Mustang, Red Dog Mine, Fed-Ex Hangar, finance update, and legislative proposals. These are matters, the immediate knowledge of which would clearly have an adverse effect upon the finances of the public entity; personnel matters which by law are required to be confidential, including deliberative, executive, and attorney/client privileged.**

The Board reconvened its regular meeting at 2:28 pm. Chair Pruhs advised that the Board did not take any action on matters discussed while in Executive Session. The session was limited to discussion of matters directly protected from public disclosure by the Open Meetings Act.

## **7. DIRECTORS COMMENTS**

### **7A. Ambler and Makushin Geothermal Update**

Mr. Ruaro commented that the Ambler Road Subsistence Work Group and the Workforce Development Group had a positive experience touring the Red Dog Mine and seeing first-hand how well the mine operates. Their respective meetings were held in Kotzebue. He noted the particular interest the Workforce Development Group had regarding work opportunities for younger people who may otherwise move away from the community if work is not available. Mr. Ruaro discussed that an elder member of the Work Group framed the primary question as, "What happens to the culture and subsistence without the mines and jobs," rather than, "Is the mine going to hurt the culture and subsistence?" Mr. Ruaro noted that decisions are not binary, and they will take a balanced view. Mr. Ruaro highlighted the importance of the ability to utilize and understand the protocols that have been developed for workforce development at Red Dog Mine and for managing wildlife for the road. He noted that the tour saw five bears on the road in a span of an hour-and-a-half. There were no questions.

Mr. Ruaro advised that work continues on the Makushin Geothermal project. Review of the resource with GeothermEx and the lead of the project proponent is ongoing. The report is

expected to be released within the next two weeks, and the hope is that it will find that the resource is present and can sustain the project. Due diligence on the project's fiscal modeling and tax credit review continues. There were no questions.

## **7B. AIDEA Interest Rates**

Chair Pruhs requested Tiffany Janssen, AIDEA Chief Loan Officer, to provide the information regarding AIDEA interest rates. Ms. Janssen indicated that the floor interest rate for each fiscal year is set at the end of the previous fiscal year. The floor is controlled by statutes and regulations, and cannot go below the five-year return of the investments. The floor changes weekly. It is based off of the Federal Home Loan Bank of Des Moines, and includes the cost of funds. The current floor is 5.7% for 20 years and 5.69% for 25 years. The banks' current average rate is approximately 9.5%.

Commissioner Sande asked if there has been any feedback regarding AIDEA having competitive rates with banks. Ms. Janssen responded that many of the developments being considered are tenant-based and would not be economically feasible if the terms and rates were higher.

Chair Pruhs asked if it is accurate that the projects requesting funding will ask for AIDEA to participate in 90% of the loan. Ms. Janssen agreed. Chair Pruhs requested Ms. Janssen provide information to the Board at a later point regarding the benchmarks that other institutions, similar to AIDEA, use in financing for setting their interest rates. Chair Pruhs asked if the activity of interested projects has increased. Ms. Janssen agreed that intakes of preflights and applications have increased, now that the interest rates and prices for acquisitions have stabilized in the market. She noted that application project values have also increased.

Chair Pruhs commented that interest rates will decrease at some point. He asked for additional information regarding what will occur during a scenario when interest rates decrease and the project wants to refinance with the bank and with AIDEA at a lower rate. Ms. Janssen explained that typically, the banks' terms are 15 years or 20 years, with rates that adjust every three to five years. She explained that AIDEA does not automatically refinance if interest rates go lower. The project must justify the reason for the refinance and the lender must provide certification as part of the commitment package. The option does exist in regulation that the project can buy down the loan at a 1% fee. Chair Pruhs commented that he sees the banks' challenges of not wanting to redeploy capital at a lesser rate. He requested staff review the issue with AIDEA's bank partners and discuss a program to address these challenges.

Commissioner Sande expressed appreciation to staff and the members of the Board for their heroic efforts during the COVID pandemic in working with existing loans on behalf of Alaskan businesses. She commented on the importance of this presentation and outlining AIDEA's loan processes with the public.

Chair Pruhs agreed and noted that his questions are intended to begin the conversation and disseminate the pros and cons of the information. He asked if the loan document includes clarifications regarding the refinance process. Ms. Janssen indicated that the processes are within statutes and regulations. She does not recall any language in the loan documents that specifically address refinancing. Chair Pruhs asked if it would make sense to include the processes for refinancing in the borrower's loan origination documents. Ms. Janssen indicated that staff can

review that suggestion with the individual lenders. She noted that the loan documents are originator-based and are not AIDEA's loan documents. AIDEA has a participation certificate with the lender, and the lender drafts the borrowers' documents. Chair Pruhs expressed that his goal is to inform the borrower.

Commissioner Sande inquired if the component of having a justifiable reason for the refinance is AIDEA's requirement or the lender's requirement. Ms. Janssen explained that requirement is one of AIDEA's rules and is not contained within regulation. AIDEA wants to address the bank's concerns regarding refinancing. AIDEA prefers that loans are resolved by the market with the market rate. AIDEA is interested in participating in refinances in which the additional cash flow is used to further Alaskan development or to create and retain Alaskan jobs.

Chair Pruhs requested that staff create a document to include within the loan documentation that delineates AIDEA's process for refinancing. Ms. Janssen agreed, and noted it is possible that the procedures could be issued as a policy and placed on the loan participation page of the website. There were no additional questions.

#### **7C. Loan Dashboard Report**

A member expressed concern regarding the stagnant level of the total loan amounts. He noted that Ms. Janssen mentioned an increased amount of application activity and he asked for the reasons why more loan applications have not come before the Board. Ms. Janssen explained that many loan pay-offs occurred last year due to growth and sales in the real estate market. The onboarding of new loan participations has stabilized the effects of the payoffs and the total loan amounts have remained the same. The current loan applications under review are less than \$3 million each and do not come before the Board. There are a few projects between \$3 million and \$10 million that are expected to come before the Board soon. Additionally, there are a few projects greater than \$10 million that are in the process of fully completing the application before they can come before the Board. Ms. Janssen explained that the larger projects have a longer lead time. There were no other questions.

#### **7D. Next regularly scheduled AIDEA Board Meeting Wednesday, August 2, 2023**

### **8. BOARD COMMENTS**

Chair Pruhs expressed appreciation to staff for their efforts and looks forward to setting a date for a work session.

### **9. ADJOURNMENT**

There being no further business of the Board, the AIDEA meeting adjourned at 2:54 pm.

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Randy Ruaro, AIDEA Executive Director

Secretary