




MEMORANDUM

To: Board Members
Alaska Industrial Development and Export Authority

From: Ted Leonard 
Executive Director

Date: February 5, 2015

Subject: Project Finance Loan Summary – Interior Alaska Natural Gas Utility (Interior Gas Utility or IGU), Loan Resolution No. G15-03

Loan Request IGU requests an increase in Line of Credit (AIDEA Senate Bill 23 Financing) in the amount of \$29,680,000 to \$37,780,000

Term

Source	Amount	Term	Structure
AIDEA SETS SB 23	\$29,680,000.00	2 Year LOC 48 Year Term Note	No payments and no interest until 12/31/2017 on the line of credit. The 48 year term note at 1% interest with deferred payments and capitalized interest for the first 8 years.
AIDEA SETS SB 23	\$ 8,100,000.00	2 Year LOC 48 Year Term Note	No payments and no interest until 12/31/2017 on the line of credit. The 48 year term note at 1% interest with deferred payments and capitalized interest for the first 8 years.
Total Exposure	\$37,780,000.00		

Borrower Interior Alaska Natural Gas Utility

Use of Proceeds Construction of Phase 1 Distribution System, acquire right of way, purchase equipment and materials, perform design work for Phase 2 and 3 of distribution system, and install temporary storage.

Project Construction of Phase 1 build out of IGU’s natural gas distribution system and the funding of temporary storage to feed the buildout of Phase 1. The loan will also be used to continue the design of Phase 2 and 3 of planned distribution system in Fairbanks’ area.

Economic Development/

Job Creation Over approximately the next 18 months, IGU anticipates that during construction of Phases 1-3, about 165 construction jobs will be created and upon completion, the project would support on average 260 local jobs. Of these, approximately 240 jobs are indirectly supported at other Fairbanks North Star Borough (FNSB) businesses and 20 are permanent jobs in gas operations. Contracting for services to: design engineering firms, construction cost estimators, ROW agents, permitting specialists, environmental scientists, and survey teams are forecasting to employ between 35 to 40 additional professionals.

Company

The Interior Alaska Natural Gas Utility (IANGU) was created on October 11, 2012, by FNSB Ordinance No. 2012-52, which acquired an area-wide natural gas utility power by transfer from the cities of Fairbanks and North Pole. IANGU developed and adopted Bylaws on January 2, 2013, which outlined that they will be referred to as Interior Gas Utility (IGU).

Steven Haagenson, General Manager: Mr. Haagenson has extensive utility experience, being a previous President and CEO of Golden Valley Electric Association, and also holding previous positions at Golden Valley Electric Association as an electrical engineer, an interim Manager of Operations, the Manager of Engineering Services, and the Vice President for Transmission and Distribution. Mr. Haagenson has also served as Statewide Energy Coordinator and Executive Director for the Alaska Energy Authority, and is a present member of the Alaska Gasline Port Authority.

Collateral and Value

- Blanket UCC on all property constructed and equipment purchased in whole or in part with loan proceeds.
- All designs, specifications, plans, permits, and programs purchased in whole or in part with loan proceeds.

Financial Information

Specific confidential financial information will be provided to Board members under separate cover.

Regulation waiver request

Under 3AAC 101.010 – 3 AAC 101.900 AIDEA Sustainable Energy Transmission and Supply (SETS) Development Fund Regulations, staff is requesting the board to approve, waive or modify the following AIDEA requirements:

1. 3 AAC 101.080 Terms of financing (a) the principal amount of the loan or guarantee may not exceed 75 percent of the appraised value of the collateral for the loan or guarantee. (IGU is requesting 100% financing for the project).
2. 3 AAC 101.080 Terms of financing (c) any financing the Authority provides must be secured by a first position security interest in the applicant's rights under, and the proceeds of, any contract for the sale of power, electricity, or heat from the qualified energy development. (IGU has requested this loan be subordinate to future Bond issuances).
3. 3 AAC 101.140 Other fees and charges (b)(3) the Application fee shall be for a loan or a guarantee in excess of \$20,000,000 - \$20,000 fee. Modified to \$5000.
4. 3 AAC 101.140 Other fees and charges (c) a commitment fee is due upon the applicant accepting a commitment letter the Authority has provided. The commitment fee is one percent of the principal amount of the financing the Authority is providing. The commitment fee is non-refundable. Upon the applicant's acceptance of the Authority's commitment letter in writing, the Authority will credit the non-refundable application fee against the commitment fee (1% of the IGU loan request equates to \$296,800 commitment fee).

Strengths/Weaknesses

Interior Gas Utility (IGU)	
<p><u>Strengths</u></p> <ul style="list-style-type: none"> • 95% Design Plans completed • 95% Permitting Sets • Builds out infrastructure • Lower cost of capital 	<p><u>Weaknesses</u></p> <ul style="list-style-type: none"> • Development Stage Entity • 100% financing (Specialized Collateral) • No system operator as yet • Relative High capex per customer • Lack of gas supply contract
<p><u>Opportunities</u></p> <ul style="list-style-type: none"> • Lower or stabilize energy costs • PM2.5 mitigation policies • Storage Tax Credits • Physical and operational efficiencies with other utilities • Economic Development/ Jobs 	<p><u>Threats</u></p> <ul style="list-style-type: none"> • Long term gas supply availability • Ratemaking oversight • Rate of conversion • Cash flow dependent on weather

Covenants

Significant loan covenants include:

- Audited financial statements are to be provided annually by the borrower.
- IGU Line of Credit must convert to a Term Note on the sooner of either the date of January 1, 2018 or once a supply of natural gas is available.
- Draw request must be approved by AIDEA.
- Rate covenant to ensure AIDEA debt service coverage.
- Require advanced AIDEA approval to disburse funds related to work on Phase 2 design, Phase 3 design, transmission line design and purchase of temporary storage.
- Assurance that the IGU has met all conditions required under municipal ordinances that setup IGU.

AIDEA's Capacity

AIDEA's Senate Bill 23 funding has the capacity to fund up \$116.9 million in loans for distribution and affiliated infrastructure in Interior Alaska. Based on funding Resolution No. G15-03 for \$29.7 million, there would be \$87.2 million remaining in funding available for distribution and affiliated infrastructure in Interior Alaska.

Senate Bill 23 Funding Capacity	Amount	Number of Loans
SETS Funds available for financing (including \$125 million capitalization from SB 23)	\$125,000,000	
Funded	8,100,000	1
Total Target Balance Available as 02/04/2015	\$116,900,000	
G15-03 Loan Amount	29,680,000	1
Total Allocation Available For Future Loans	\$ 87,220,000	2

Recommendation

Based on the fact that the construction of IGU's distribution system and the affiliated infrastructure is eligible for financing under SB 23 and that the financing of Phase 1 and design of Phase 2 and 3 of IGU's distribution system is in furtherance of the goals of the Interior Energy Project, the staff recommends approval of this Line of Credit increase.

TERM SHEET

<p>1. Owner/Borrower</p>	<p>Interior Alaska Natural Gas Utility, a public corporation, organized under the laws of the State of Alaska (the “Borrower” or “Owner” or “IGU”) is an instrumentality of the Fairbanks North Star Borough (“FNSB”), wholly owned by the FNSB but has legal existence independent of and separate from the borough. IGU was established by the FNSB on Nov. 15, 2012 with the purpose of bringing natural and/or manufactured gas to the largest number of people in the FNSB, at the lowest possible sustainable cost, in the shortest amount of time (See FNSB Resolution NO 2012-48 Ordinance 11.01.010, 11.01.020, 11.01.030).</p>
<p>2. Lender</p>	<p>Alaska Industrial Development and Export Authority (“AIDEA” or “Lender”), is a public corporation of the State of Alaska. Funding for loan will be from Senate Bill 23 (SB 23) funds.</p>
<p>3. Project Description</p>	<p>Phase 1 – Right-of-way (ROW) clearing, construction, service line materials and installation, and construction management.</p> <p>Phase 2 – Finalize construction plan set, purchase pipe, permits and clearing of the ROW.</p> <p>Phase 3 – Construction plan set to 100%, obtain permits and ROW.</p> <p>Gas Storage – Temporary storage design, procurement and construction.</p> <p>Transmission Main – Initiate conceptual design and alignment to begin process and acquire ROW.</p> <p>Capitalized Operations –</p> <ul style="list-style-type: none"> • Gas Operator – Initiate onboarding of gas operator for 2015 construction efforts and prepare for arrival of first gas by September 2016. • Program Management. • Other Capital Items – Includes conversion program, office furnishings, information systems, and equipment.

4. AIDEA Financing

AIDEA will increase the existing line of credit of \$8.1 million to \$37,780,000 (the “**AIDEA Financing**”), an increase of \$29,680,000 to the Borrower for the purpose of the above listed project description. The definitive terms of the AIDEA Financing will be set forth in a financing agreement (the “**AIDEA Financing Agreement**”) to be entered into by and between AIDEA and Borrower on the Closing Date.

The basic financial terms of the AIDEA Financing are set forth below:

Line of Credit Terms:

- Line of credit term will be until December 31, 2017.
- The line of credit will be for 0% interest and no payments till December 31, 2017.
- The line of credit must be converted to a term Note loan by December 31, 2017.
- Terms and conditions of Line of Credit Agreement shall match existing LOC agreements between IGU and AIDEA dated June 30, 2014.

Term Note Terms:

- The line of credit will convert to a term note (“Term Note”) with the following terms on January 1, 2018 if no other financing is in place prior to maturity of line.
- Capitalized Interest for 8 years starting January 1, 2018 till December 31, 2025.
- Monthly Payments starting January 1, 2026.
- Interest Rate: 1.00%.
- 40 Year Term fully amortized on \$40,802,400.
- Monthly Payments of \$103,396
- In the event the Interior Energy Project (“IEP”) does not make LNG supplies available to IGU by December 31, 2017, interest accrual and payment amortization will be further extended until such time as LNG or alternative gas supplies are available to the distribution system.
- In the event a Term Note is not executed to satisfy this line of credit, IGU shall transfer title of all collateral to AIDEA within 90 days.

Security for the AIDEA Financing:

- To secure repayment of the AIDEA Financing, AIDEA will have a security interest in all of the Owner’s assets, including those purchased and prepared with proceeds of this financing, including, without limitation, all real and personal property, all project contracts, all Permits (as defined below), and all accounts including bank accounts (collectively, the “**Collateral**”).
- Additionally, the borrower will obtain a line of credit of \$7.5 million to assist in funding operations of IGU.

<p>5. Closing Date</p>	<p>The AIDEA Financing Agreement and all related loan and security documents (collectively, the “AIDEA Financing Documents”), will be executed and delivered by the respective parties thereto at financial closing, which will occur on or before March 1, 2015. The actual date of closing is referred to in this Term Sheet as the “Closing Date”.</p>
<p>6. Permits</p>	<p>Borrower is required under applicable law to apply for and obtain the federal, state, and local permits required to own, construct, operate and maintain the facilities (collectively, the “Permits”). AIDEA and Borrower shall cooperate to obtain final and non-appealable Permits. AIDEA will take a collateral assignment of all Permits under the AIDEA Financing Agreement.</p>
<p>7. Sources and Uses of Funds</p>	<p>The Project will be funded as detailed in <u>SCHEDULE 1 – SOURCES & USES OF FUNDS</u>. If the AIDEA Board approves the financing, AIDEA will allow IGU to be reimbursed for allowable expenses covered during the time expenses accrued, from the day after actual AIDEA Board approval.</p>
<p>8. Development Process</p>	<p>Borrower shall provide and the parties shall agree to a development process outlining the following:</p> <ul style="list-style-type: none"> • Project schedule and schedule of values. • Project map with annual build out and scheduled permitting. • Construction objectives and timelines. • Budget.
<p>9. Disbursement of Project Funds</p>	<p>AIDEA and Borrower will enter into a Project Disbursement Agreement which will provide, among other things that on the closing date of the fixed line of credit AIDEA will appoint a finance officer to monitor the use of funds.</p>
<p>10. Tax Incentives</p>	<p>Owner may apply for and receive the benefit of any applicable federal or state tax credits, deductions, depreciation treatment, or payments.</p>
<p>11. Events of Default; Remedies</p>	<p>The AIDEA Financing Agreement will include customary events of default, including without limitation:</p> <ul style="list-style-type: none"> • Payment default. • Covenant default. • Breach of representations and warranties. • Abandonment of the facilities by Owner. • Cessation of operation of the facilities other than a temporary suspension of operations resulting from a force majeure event. <p>In the event of default by Owner, customary remedies will be available to AIDEA under the AIDEA Financing Documents.</p>

12. Precedent to Closing	Customary conditions precedent to closing, including without limitation:
13. Transfer restrictions; Change of Control:	Owner shall not assign or transfer any of its rights and obligations under the AIDEA Financing Documents without AIDEA's prior approval, which approval, in either case, shall not be unreasonably withheld.
14. Laws and Jurisdiction:	The AIDEA Financing Documents will be governed by Alaska law and all disputes thereunder shall be resolved exclusively by the Superior Court for the State of Alaska, Third Judicial District at Anchorage, Alaska
15. Fees and Cost:	<ul style="list-style-type: none"> • \$5,000 Application Fee (paid out of loan proceeds) • Associated closing costs (3 AAC 101.140 (d))

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

RESOLUTION NO. G15-03

**RESOLUTION OF THE ALASKA INDUSTRIAL
DEVELOPMENT AND EXPORT AUTHORITY RELATING
TO A LOAN TO INTERIOR ALASKA NATURAL GAS
UTILITY FOR THE DEVELOPMENT OF A NATURAL GAS
DISTRIBUTION SYSTEM**

WHEREAS, the Alaska State Legislature, in Section 11 of Chapter 26 of the 2013 Session Laws of Alaska (HCS CSSB 23 (FIN)) (hereafter “SB 23”), authorized the Alaska Industrial Development and Export Authority (the “Authority”) to provide financing for the development, construction, and installation of, and the start-up costs of operation and maintenance for, a natural gas distribution system and affiliated infrastructure in Interior Alaska;

WHEREAS, the financing the Legislature authorized in SB 23 is to be provided through the Authority’s sustainable energy transmission and supply (“SETS”) program and fund, established under AS 44.88.650 – 44.88.690 (the “SETS Statutes”);

WHEREAS, SB 23 established, or authorized the Authority to establish, financing terms that are more favorable to the borrowers than the terms provided for in the SETS Statutes, and SB 23 authorized the Authority to waive any limitations or requirements of its SETS regulations in providing financing under SB 23;

WHEREAS, Interior Alaska Natural Gas Utility, which is also known as the Interior Gas Utility (“IGU”), is an instrumentality of the Fairbanks North Star Borough that holds a certificate of public convenience and necessity from the Regulatory Commission of Alaska to operate as a public utility distributing natural gas in certain areas in and around Fairbanks and North Pole, Alaska;

WHEREAS, IGU is working to develop, construct and install a natural gas distribution system and affiliated infrastructure in its service area;

WHEREAS, in accordance with Resolution No. G14-07, adopted by the Board on April 3, 2014, the Authority made a SETS program loan of up to \$8,100,000 million to IGU to finance IGU's the initial work to develop a natural gas distribution system and affiliated infrastructure;

WHEREAS, IGU is now requesting that the Authority increase the total amount of its existing SETS program loan to a total amount of \$37,780,000, inclusive of the \$8,100,000 million already loaned, with the increased loan to be on the terms and conditions as stated in the Term Sheet presented to the Board;

WHEREAS, the increased loan would allow IGU to acquire right of way, purchase equipment and materials, perform design work, construct its distribution system, construct temporary storage, and accomplish the other tasks and matters described as the "Project Description" in the Term Sheet;

WHEREAS, the development of IGU's distribution system and affiliated infrastructure will promote economic development in the Fairbanks and North Pole communities by lowering the cost of energy for IGU's customers, and the work to develop IGU's distribution system and affiliated infrastructure will add jobs in the area;

WHEREAS, the development of IGU's distribution system and affiliated infrastructure is eligible for financing under the SETS Statutes and the Authority's SETS program because IGU's distribution of natural gas in its service area meets the definition of "qualified energy development" under AS 44.88.900(16)(B);

WHEREAS, since IGU's distribution system and affiliated infrastructure will be a "natural gas distribution system and affiliated infrastructure in Interior Alaska" the development of IGU's

distribution system and affiliated infrastructure is eligible for financing on the favorable terms SB 23 authorized;

WHEREAS, the Board the proposed increased loan to IGU for the development of its distribution system and affiliated infrastructure is a suitable one for the Authority to provide and is in furtherance of the Authority's statutory purpose of promoting, developing and advancing the general prosperity and economic welfare of the people of Alaska, to relieve problems of unemployment, and to create additional employment.

NOW, THEREFORE, BE IT RESOLVED BY THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY AS FOLLOWS:

Section 1. The Authority is authorized to increase the loan IGU up to a maximum amount of \$37,780,000, which amount is inclusive of the \$8,100,000 previously authorized. The increased loan is to be from the SETS fund and is to be used by IGU to acquire right of way, purchase equipment and materials, perform design work, construct its distribution system, construct temporary storage, and accomplish the other tasks and matters described as part of the "Project Description" in the Term Sheet provided to the Board. The Authority's increased loan to IGU is to be on the terms substantially similar to those set out in the Term Sheet, with such non-material modifications as the Executive Director, in his discretion, may decide are appropriate.

Section 2. Pursuant to SB 23, any requirements or limitations of the Authority's regulations that are inconsistent with the terms of the increased loan to IGU as set out in the Term Sheet are waived.

Section 3. The Executive Director is authorized to execute and deliver on behalf of the Authority all documents necessary to consummate the increased loan to IGU, including but not

limited to an amended loan commitment, amended loan agreement and revised loan documents. The Executive Director is further authorized to take any actions and sign any other documents that he, in his discretion, deems appropriate to carry the intent and purposes of this Resolution.

DATED at Anchorage, Alaska on this 5th day of February, 2015.

ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY

Chair

SEAL
ATTEST:

Secretary