

SENATE FINANCE COMMITTEE

March 15, 2023

9:01 a.m.

9:01:34 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Donny Olson, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Jesse Kiehl
Senator Kelly Merrick
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Randy Ruaro, Executive Director, Alaska Industrial Development and Export Authority; Senator Cathy Giessel.

PRESENT VIA TELECONFERENCE

Amy Adler, Acting CFO, ADIEA, Anchorage; Geoffrey Johns, Acting Chief Investment Officer, AIDEA.

SUMMARY

PRESENTATION: ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

Co-Chair Stedman commented that he had a conversation with a colleague from the other body and had received a chart he thought would be useful. He thought the chart might be helpful when referencing capital appropriations. He referenced a printed chart entitled "Swoop Graph - UGF Only, FY24 Governor's Budget Compared to FY23 Management Plan," (copy on file).

Co-Chair Stedman relayed that the committee would hear a presentation from the Alaska Industrial Development and Export Authority (AIDEA). He noted that the executive director was new to the position. He had asked for AIDEA to have frank discussions of the topics and noted that it was working through some challenges that were present when the executive director came to the position.

^PRESENTATION: ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

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RANDY RUARO, EXECUTIVE DIRECTOR, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY, introduced himself and relayed that he had started his position on January 3, 2023.

Co-Chair Stedman asked Mr. Ruaro to discuss his background.

Mr. Ruaro discussed his background, which went back twenty years in state government. He had worked in the legislative office for former Governor Frank Murkowski and had worked for former Governor Sarah Palin and former Governor Sean Parnell. He had worked for Governor Mike Dunleavy as a deputy chief and chief of staff. Before working in state government, he had worked in private practice, previous to which he had worked at the Ketchikan Pulp Mill and in commercial fishing.

Co-Chair Stedman asked if Mr. Ruaro had worked in the legislature.

Mr. Ruaro relayed that he had worked with Representative Bill Williams, Representative Kyle Johanson, and for Co-Chair Stedman.

Co-Chair Stedman thought Mr. Ruaro had a good, rounded background in both areas of government.

Mr. Ruaro discussed a PowerPoint presentation entitled "Alaska Industrial Development and Export Authority Overview," (copy on file). He looked at slide 2, "AIDEA Mission," and summarized that AIDEA's simple mission was to create economic development and jobs. He noted that the mission was easy to follow and the reasons, findings, and policy were set out in statute by the legislature. He relayed that the legislature had found that there was a

need for an entity such as AIDEA with financing ability to help promote jobs and economic development.

Mr. Ruaro spoke to slide 3, "AIDEA Overview":

- Investing in Alaskans since 1967
- Alaska's Development Finance Authority
- Financially Self-Sustaining Public Corporation (no GF by statute AS 44.88.190(b))
- The authority is a public corporation of the state and a body corporate and politic constituting a political subdivision within the Department of Commerce, Community, and Economic Development, but with separate and independent legal existence (Sec. 44.88.020).
- The purpose of the authority is to promote, develop, and advance the general prosperity and economic welfare of the people of the state, to relieve problems of unemployment, and to create additional employment (Sec. 44.88.070).

Mr. Ruaro showed slide 4, "AIDEA Program Highlights."

Mr. Ruaro turned to slide 5, "LOAN Participation Program (LPP)":

The LPP provides long-term fixed rate financing to Alaska's commercial businesses, through a qualified financial institution, principally in support of construction and economic growth in Alaska's commercial real estate sector.

Current LPP Statistics:

- \$422 million of program loans outstanding
- Total LPP loans outstanding has increased nearly 34% over the last 5 years
- Current borrowers are represented by 28 different industries
- Current loans outstanding represent over 6.75 million sq. ft. of total commercial collateral throughout the State of Alaska

Mr. Ruaro relayed that AIDEA's Loan Participation Program (LPP) was a commercial lending program, and usually took on roughly 70 percent of a loan with a participating bank. He commented on the success of the program. He estimated that AIDEA received almost 55 percent of its revenue from LPP.

He commented on the experienced staff in place and the goal to continue to grow the program. He highlighted statistics shown on the right-hand side of the slide, including \$20 million in total amount of projects being financed and \$410 million in loans outstanding. He commented that he was aware of very few defaults.

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Mr. Ruaro considered slide 6, "Alaska's Ship Home-Porting For Improvements Program (AK SHIP)," and noted that the program helped in promoting ship-building in the state. He hoped to expand the program. He was working with some community development quota (CDQ) groups to get as many ships built in Alaska as possible. He noted that AIDEA owned the shipyard in Ketchikan and was looking at ways to grow more business at the shipyard.

Mr. Ruaro displayed slide 7, and discussed the Conduit Revenue Bond Program, through which AIDEA acted as a conduit borrower with the principal and interest paid back by a third party. He mentioned the Tanana Chiefs Conference (TCC) facility as an example, with an over \$126 million bond issuance. He noted that AIDEA had been active in healthcare but was talking with communities about significant opportunities. He discussed a project related to port development in Skagway, and his recent visit to the community.

Senator Kiehl asked about the Conduit Revenue Bond Program as well as the LPP and asked about positive and negative experiences and the default rate on loans. He asked if there had been any missed payments on the conduit bonds.

Mr. Ruaro answered "no" and was not aware of any missed payments.

Senator Kiehl asked Mr. Ruaro to get back to the committee with the default rate for LPP.

Mr. Ruaro agreed to provide the information.

Mr. Ruaro highlighted slide 8, "AIDEA Project Financing":

Assists Alaskans through AIDEA's ability to develop, own (in whole or in part) and finance installations and facilities within the state, especially those

which advance economic development within a community, borough, or region of the state.

Mr. Ruaro looked at slide 9, "Project Financing - Red Dog Mine | DMTS," and thought the Red Dog Mine was AIDEA's most successful project. He cited that the mine's return was close to \$1 billion, and that the project was a major driver of economic benefit and jobs. He mentioned NANA Regional Corporation. He thought the mine had a 60 percent shareholder hire rate in the region. He cited that while the current mine was anticipated to run out in 2031, there were two other deposits nearby on state land and Red Dog Mine facilities could continue for many years.

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Senator Kiehl asked about the first bullet on the slide, "Without AIDEA there would be no mine," and thought the mine had been a responsible development. He referenced a consultant's report that had indicated that the mine would have proceeded without AIDEA.

Mr. Ruaro argued that the mine had needed AIDEA's financing to get started. He referenced legislation that had set up the economic development program at AIDEA, and approved bonding of \$160 million for the infrastructure project. He had talked with others that had been involved at the time that indicated that the financing had not been available without AIDEA's assistance.

Co-Chair Olson noted that the Red Dog Mine was in his district and understood that after the market challenges that existed in the 1980s there would have been enough demand. He thought the project may have been possible without AIDEA participation, although on a different timeline.

Mr. Ruaro relayed that from what he had learned from others, Cominco had not had the funding to start the project.

Mr. Ruaro addressed slide 10 and discussed project financing for the FedEx Hangar at the Ted Stevens Memorial Airport in Anchorage. He cited that the project was successful and anchored jobs. He mentioned the goal of improving and expanding some facilities at the airport. He cited a report that one in eight jobs in Anchorage was tied

to the airport. He noted that AIDEA had financed jet fuel tanks at the airport when there had been a jet fuel crisis.

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Mr. Ruaro advanced to slide 11, "Project Financing - Ambler Access Project." He explained that the road project was what AIDEA was currently spending most of its time on currently. He cited that the project was a 211-mile road west off the Dalton Highway in the Ambler Mining District along the Brooks Range. He mentioned the Alaska National Interest Lands Conservation Act (ANILCA) and considered that it was a right-of-way that Congress said should exist. He shared that the project was in the pre-construction stage and was in litigation. There was a \$24 million field program set to be underway in the current year, and the project was focused on local hire for most of the jobs. The hope was that Ambler would end up similar to the Red Dog Mine.

Senator Kiehl looked at the two bullets at the bottom of slide 11:

Through September 1, 2021:
3,256 mining claims purchased for mining
3,931 jobs in mining operations & \$300 million
in wages for mining operations

Senator Kiehl asked if the mining claims were contained in the Ambler District.

Mr. Ruaro relayed that the mining claims were not all contained in the Ambler District, which was more to the west end of the road.

Senator Kiehl asked Mr. Ruaro to address the proven and probable reserves identified in the district that the road would be accessing.

Mr. Ruaro did not have the information to hand, but agreed to get the information. He thought it was important to note that the road was being permitted, and the mines would have a separate permitting process.

Senator Kiehl thought the previous slide had some baseline economic data and it was possible to look at the values. He commented on a significant difference.

Co-Chair Stedman asked Mr. Ruaro to provide the data.

Mr. Ruaro agreed.

Mr. Ruaro looked at slide 12, and discussed the future development of the West Susitna Access Project, which was an about 100-mile road with recreational values and mineral values. The project was still in the very early stage, and AIDEA was working on the National Environmental Policy Act (NEPA) permitting. He mentioned potential for timber and mining and thought the Department of Natural Resources (DNR) had recently put out a notice for oil and gas exploration possibilities. He thought the project could be a unique area for recreational access and mineral values.

Co-Chair Stedman wondered if AIDEA was looking for federal assistance in building the road for the project, and asked if the road would be a dirt road like an oversized logging road.

Mr. Ruaro relayed that the road would need to be more of a significant industrial road to sustain the mining trucks. He continued that AIDEA was also in discussion with the DNR commissioner regarding federal assistance.

[9:19:59 AM](#)

Mr. Ruaro showed slide 13 and discussed future project development for Alaska National Wildlife Refuge (ANWR) 1002 Leases. He noted that the efforts of getting the leases into production was being litigated by the non-governmental organizations (NGOs). He hoped to have an answer from the judge about proceeding within the next month or two, but currently progress had stopped. He thought there were roughly 10.3 billion barrels of oil estimated to be recoverable. He noted that there were state leases offshore of ANWR in state waters, which were estimated to contain 2 billion barrels of oil. There were also Kaktovik Inupiat Corporation lands, which were estimated to contain 1 billion barrels of oil; and the federal 1002 area had 7 billion barrels of oil estimated as recoverable. He shared that AIDEA's plan was to move forward with an exploration program and try to define the resource if it could get through the court system.

Co-Chair Stedman asked if the project was for leases the state had purchased.

Mr. Ruaro answered "yes," the leases had been purchased by AIDEA.

Senator Kiehl thought the ANWR project seemed like a "one-off," and everything else was someone in the private sector doing development work with a little state support. He referenced significant activity and corporate interest in the basin, and asked why the project was so different.

Mr. Ruaro was not familiar with why more companies had not bid on the ANWR leases. He thought there was clearly an effort underway to litigate or even boycott any company by NGO's and others if entities were thought to be too aggressive in developing resources. He guessed that companies had decided there were other places in the world that were easier to drill, quicker to return, with avoiding being put in the limelight by the NGO's as "destroying the Arctic."

Senator Kiehl had not found the oil industry to be easily cowed when there was a resource thought to be economic. He wondered why AIDEA, as a state investment bank, made direct investment in the project rather than support a private industry project.

Mr. Ruaro thought the AIDEA action was directed by the board in order to make sure the state preserved the opportunity in ANWR that Congress had provided, rather than the possibility of no one bidding on the leases. There was nothing to prohibit AIDEA from partnering with the private sector at a later date. There were only two lease sales directed by Congress in the 2017 tax act, and AIDEA wanted to make sure the opportunity was preserved for the state. He commented that potential revenues were tens of billions of dollars.

[9:23:51 AM](#)

Mr. Ruaro showed slide 14, "AIDEA Financial Highlights."

Mr. Ruaro turned to slide 15, "AIDEA 2022 Financial Highlights," and cited that AIDEA had net income of \$35.8 million and 28 years of positive annual net income. The AIDEA dividend was increasing, with \$17.9 million in the

current year and \$463 million in total dividends since 1996. There had been a 67 percent increase from 2017 to 2021, and he thought the dividend had a record of strong positive returns. He thought in most years the dividend was close to the 50 percent maximum and was 47 percent on average.

Mr. Ruaro considered slide 16, "Where Does AIDEA Get Its Money?" He explained that AIDEA received revenue from three locations: its loan participation program, project investments like the Red Dog Mine, and some reserves that returned revenue.

Mr. Ruaro displayed slide 17, which showed a financial summary for FY 22. He identified that AIDEA had a net position at the beginning of the year of \$1.4 billion. He cited that AIDEA had investments, securities, loans, assets, Snettisham, power lines, and the Red Dog Mine.

Co-Chair Stedman asked about the net income increase/(decrease) in fair value of investments of negative \$48 million, which was in the right-hand column.

Mr. Ruaro deferred the question to AIDEA staff. He thought the information might be a partial reflection of the write-down of the Mustang Project.

[9:26:29 AM](#)

AMY ADLER, ACTING CFO, ADIEA, ANCHORAGE (via teleconference), believed that the \$48 million referenced on slide 17 was the change in fair market value of AIDEA investments on June 30.

Co-Chair Stedman asked about the investments.

Ms. Adler referenced AIDEA's investment portfolio, which was primarily externally managed.

Co-Chair Stedman asked for more information including three to four years of performance of the portfolio. He asked about the Snettisham Project, and asked if Snettisham was reverting to the utility and how it would impact AIDEA.

Mr. Ruaro relayed that the Alaska Electric Light and Power (AEL and P) Company would have the opportunity to purchase Snettisham at the end of the loan. He thought the loan had

12 years left. He had spoken with AEL and P, which had indicated it would continue with the existing payment plan and consider purchasing the asset at the end of the life of the loan.

Co-Chair Stedman asked if AIDEA would retain ownership of Snettisham if AEL and P did not purchase it.

Mr. Ruaro answered in the affirmative.

Co-Chair Hoffman asked about assets and requested a list of development projects including investments and a breakdown of the \$461 million in development projects.

Co-Chair Stedman asked Ms. Adler to assist with a breakdown of the balance sheet and projects that comprised the \$461 million.

Ms. Adler agreed to get back to the committee with the information.

Co-Chair Stedman asked for a brief explanation regarding the \$219 million of deferred inflows of resources as listed on the slide.

Ms. Adler explained that the deferred outflows of resources was primarily related to employee pension and also the Snettisham Project. She offered to provide more detailed information at a later time.

Senator Bishop asked for explanation of Snettisham revenues and expenses.

Ms. Adler did not have the information at hand and agreed to provide the information at a later time.

[9:30:02 AM](#)

Mr. Ruaro highlighted slide 18, which showed an operating budget summary. He cited that the operating budget was a "fairly benign budget." He noted that there would be a few changes going forward, most of which were related to the increased need by the Alaska Energy Authority (AEA) to process significant amounts (close to \$2 million) in Infrastructure Investment and Jobs Act (IIJA) funds. The funds were coming with a possibility of several hundred million more coming in grants, and there were some

increased receipts for personnel services. He thought AEA was asking for five positions in the budget in the current year, which he thought could increase quickly. He noted that AEA's budget flowed through AIDEA's budget, and AIDEA's budget included AEA's personnel and costs.

Senator Wilson asked about AIDEA personnel and asked Mr. Ruaro to discuss the workflow and work culture, including retention and recruitment.

Mr. Ruaro viewed the work environment as very positive. He relayed that he had a small group of good staff, comprised of six to eight senior staff that he met with twice weekly. He thought AIDEA had a very healthy work environment. He relayed that he had an open management style, with everyone involved in issues and projects.

Co-Chair Stedman asked if there had been a culture change since Mr. Ruaro had started in his leadership role.

Mr. Ruaro could not speak to the prior environment but emphasized that everyone was treated respectfully and AIDEA was seeing similar recruitment and retention issues as other agencies. He was happy with his core staff and the work product. He considered that everyone was working as a team.

Co-Chair Stedman asked if there were positions that still needed to be filled.

Mr. Ruaro identified that there were two open positions that were anticipated to be hired within the following two weeks.

Co-Chair Stedman asked for Mr. Ruaro to get back to the committee with information about the timeline of the hiring process. He shared concerns that the state bureaucracy was so cumbersome that it took too long to accomplish the hiring, which sometimes resulted in loss of potential employees.

Mr. Ruaro relayed that AIDEA had a statute that allowed for expedient hiring. He acknowledged that it had taken some time to hire individuals for certain positions. He thought there were some good candidates, and the agency would be hiring for some positions in the next week.

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Senator Bishop asked if any of the positions being hired were out of state.

Mr. Ruaro relayed that all of AIDEA's positions were in-state work at the office and all of the candidates were in-state.

Mr. Ruaro looked at slide 19, "AIDEA Dividend Information," and relayed that AIDEA's dividend for the FY 24 budget was unique.

Mr. Ruaro addressed slide 20, "What Does AIDEA Do With Its Profits?" He offered background that revenue came into AIDEA and was reinvested as programs or issued as dividends as the statutory 20 percent to 50 percent of annual income.

Mr. Ruaro advanced to slide 21, "AIDEA Annual Dividend Overview," and cited that AIDEA had a strong record of dividends, with 47 percent of net income as the norm provided to the treasury, with \$464 million over 28 years.

Mr. Ruaro looked at slide 22, "2022 Declared Dividend," He explained that the 2022 declared dividend, which was in the current year's budget, was \$17,904,000 in cash or assets. Shortly before he had been hired, the board passed a resolution that the dividend would be that amount in cash or assets.

Mr. Ruaro spoke to slide 23, "Budget Amendment for Dividend." He explained that the slide showed the budget amendment provided by the Office of Management and Budget (OMB) to the committee was for roughly \$13,904,000 allocated to the value of the Mustang Road, which would be returned back to DNR and the state. He explained that the dividend was unique as it was the first time in AIDEA's history it was including an asset rather than cash.

Co-Chair Stedman thought the committee might have questions on slide 23. He noted that the presentation would address the Mustang Project, and suggested Mr. Ruaro wanted to defer questions until the slides were discussed. He thought the Mustang Road was a project that had been challenging for the state. He thought it might be easier for the public to follow if Mr. Ruaro offered a brief history of the project.

Mr. Ruaro thought his staff could offer a brief chronology of the project.

[9:38:18 AM](#)

Co-Chair Hoffman asked Mr. Ruaro to review the \$17.9 million dividend, and asked if he had indicated that \$4 million was in cash. He thought in previous years the dividend had been as high as \$26 million, and all of the close to \$1 billion in dividends had been in cash.

Mr. Ruaro answered affirmatively.

Co-Chair Hoffman asked if the board made the decision to give a dividend in assets and asked how it was allowable. He asked if there was a law that allowed for the dividend to be provided in land. He thought the reason the state wanted a return on investment was so the state could have the cash to allocate to the citizens of Alaska. He thought it seemed as though the state invested cash in AIDEA and now getting another asset that would not potentially realize income that the legislature could spend. He asked Mr. Ruaro to comment before beginning to discuss the Mustang Project.

Mr. Ruaro affirmed that the board made the decision, and by statute the board was authorized to declare a dividend. In the resolution of December 2022, the board took the steps of declaring a dividend with the inclusion of an allocation of value to an asset.

Co-Chair Hoffman asked under what authority the board had to give dividends via investment, which he did not think was something the state had originally intended.

Mr. Ruaro relayed that there was a specific statute that gave the board the authority to declare dividends.

Co-Chair Hoffman relayed that he was well aware of the statute, and wanted to know how the board determined the dividend would not be cash.

Mr. Ruaro was not present at the board meeting but assumed that the board had debated and voted on the structure of the dividend, which was the normal process.

Co-Chair Stedman asked Mr. Ruaro to address the Mustang Project and then return to the topic of the dividend. He thought the committee would find that there was another agency involved. He thought clearly a dividend that was not cash was cumbersome for the committee to deal with, particularly in the capital budget.

Co-Chair Stedman asked for an overview and history of the Mustang Project.

[9:42:57 AM](#)

GEOFFREY JOHNS, ACTING CHIEF INVESTMENT OFFICER, AIDEA (via teleconference), introduced himself and discussed his background. He relayed that he had been an AIDEA employee and had been involved in the Mustang Project since August 2019. He explained that the Mustang Project and AIDEA's involvement began in 2011 to 2012. At the time there had been a suite of diverse working interest owners and interested parties. The primary company he would address was the Brooks Range Petroleum Corporation (BRPC), which was a working interest owner and main operator of Mustang. He relayed that he would discuss the Southern Miluveach Unit (SMU) and the Mustang Projects as synonyms.

Mr. Johns continued that BRPC had begun development on the Mustang Project in 2012 when they attempted to drill wells to assess available resources on SMU. From 2012 through 2015 BRPC had provided DNR with an annual plan of development, which it was ultimately unsuccessful to meet for a suite of reasons.

He relayed that AIDEA had gotten involved in the Mustang Project in 2013, when it passed a resolution (Resolution G1208) to fund up to \$20 million related to the construction of the Mustang Road and Pad. He continued that BRPC had constructed the road including a pad for about \$26 million to \$27 million. He continued that in 2014, AIDEA advanced (through resolution) an additional \$50 million to the development of the Mustang Project, which was to be part of a broader \$250 million development.

Mr. Johns continued that the additional funds were to be raised through an Asian entity. The other ownership groups were Alpha Energy Holdings and CES Oil Services. He recounted that the project had run into challenges in 2015 with the precipitous decline in commodity prices.

Ultimately the project had been put into "warm standby" in the period, while the working interest owners and AIDEA tried to work out how to advance financing to the project. The additional funding through the Southeast Asian entity had not materialized. In combination with a veto of tax credits, the project had insufficient cash.

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Mr. Johns continued that through various resolutions, in 2017 AIDEA provided a bridge loan of \$2.5 million that was related to one particular well that was flow-tested and certified by DNR to be able to produce in economic quantities which preserved SMU as a unit. Subsequently AIDEA had provided an additional loan of an approximately \$300,000 line of credit to sustain the project through depressed commodity prices. At the time, AIDEA was also in negotiations with BRPC and other interest owners to change its involvement in the project from equity owner to senior secured lender, which ultimately took place in May of 2019. He continued that AIDEA had provided a \$64 million loan to an entity to Caracol Petroleum, which was owned by a Singapore entity called Alpha Energy.

Mr. Johns continued that in the fall of 2019, BRPC approached AIDEA and informed it was unable to meet its debt service payment of \$3.1 million (due on October 1) and asked for forbearance. Because the project drilling had not advanced, the decision was made to not provide forbearance and to issue notice to cure. He continued that BRPC was unable to cure the default on the loan and notices of default were issued.

Mr. Johns recalled that at the time, BRPC was still seeking to produce oil and ultimately did in November 2019. There was a period of production for 20 days and BRPC produced approximately 11,000 barrels of oil. Production had to be ceased because BRPC was unable to capture the gas and reinject it back into the reservoir before reaching the limits of its gas flaring permit. In December the project was placed in warm standby again. As the senior secure lender, AIDEA was working with the new ownership group to refinance the project and get it started.

Mr. Johns continued that AIDEA had passed an additional resolution related to the attempted restructuring. The owners had failed to meet the conditions on the signed term

sheet, and as a result AIDEA had commenced foreclosure proceedings on the project. The project was placed into "cold shutdown," at which time the pad and the oil pipeline were de-inventoried of all hydrocarbons and sensitive electronic equipment were moved offsite for secure storage.

[9:51:32 AM](#)

Mr. Johns recounted that throughout the summer of 2020, AIDEA continued to work with the working interest owner group at another attempt to refinance and restructure the development. At the AIDEA September board meeting there were representations made by the ownership group that it was prepared to proceed with the negotiated deal. Based upon the information, AIDEA had proceeded with a non-judicial foreclosure in late September of 2020. At the time, there was a resignation of the operator of BRPC, and AIDEA foreclosed on its working interest in the form of real and personal property and became the 90.1 percent working interest owner of the Mustang development.

Mr. Johns explained that immediately upon foreclosure, the entity AIDEA was dealing with decided to change the nature of the pre-negotiated deal. He continued that AIDEA had been unable to proceed and took steps for Mustang Holdings (the entity created and wholly owned by AIDEA) to become the named operator of SMU and commenced satisfying all regulatorily required insurance and bonding. For the previous two years, AIDEA had been working to secure a new deal for the redevelopment of the Mustang Project. In August 2021, the board approved to commence a competitive bid and sale process. He detailed that AIDEA had signed non-disclosure agreements with 8 to 10 interested parties. Since that time, AIDEA had been negotiating with one interested party and remained in conversation in the hopes of successful resolution to the Mustang Project.

[9:54:23 AM](#)

Co-Chair Stedman referenced the \$2 million loan, and asked if the loan was in payment of property tax.

Mr. Johns did not have the information at hand regarding the \$2 million bridge loan.

Co-Chair Stedman thought the information was in an audit, which he could have printed for the committee.

Co-Chair Hoffman thought the audit that Co-Chair Stedman referenced was done by the Legislative Budget and Audit Committee. He asked if Mr. Johns could provide his testimony in writing, with notation of the resolutions that had been referenced. He thought the information was important and thought the committee should have written copies.

Co-Chair Stedman asked to walk through the timelines to avoid confusion. He agreed that a written copy of the testimony would be helpful in addition to the audit.

Senator Kiehl thought it sounded as though AIDEA owned 90 percent of the road. He asked how much money AIDEA had put in.

Co-Chair Stedman asked to walk through the forthcoming slides that addressed the project and circle back to issues around the road.

[9:57:09 AM](#)

Mr. Ruaro showed slide 24, "Mustang Road."

Mr. Ruaro turned to slide 25, "Southern Miluveach Unit (SMU) & Mustang Project," which showed a map of the SMU, which was located in between the Willow Project and the Pikka Project and a number of other developments. He cited that the area was a strategic location and the road connected into the other developments. The Mustang Road was about 4 miles long and the Mustang Pad was about 17 acres in size.

Mr. Ruaro considered slide 26, which showed a photograph of an aerial view of the road as it led to the pad and connected into an existing road.

Mr. Ruaro displayed slide 27, "Mustang Road - Timeline":

- CY 2012
 - Q4: AIDEA Board approves \$20 million investment in
 - Mustang Road LLC for the road and pad project
 - AIDEA Board Resolution G12-08
 - Total cost estimate of \$25 million

- Brooks Range Petroleum Corporation (Brooks Range) to fund \$5 million & any cost overruns
- CY 2013
 - Q1-Q3: Mustang road & pad constructed, completed in July 2013
 - AIDEA Board approves cost reimbursement agreement with Brooks Range re: SMU
 - AIDEA Board Resolution G13-01
 - DNR grants Brooks Range a 5-year early entry authorization

Mr. Ruaro mentioned Co-Chair Hoffman's comments and agreed to get copies of the board resolutions and timeline.

Co-Chair Hoffman asked to get information regarding the voting record for the resolutions.

Co-Chair Stedman thought that some of the information would be included in the audit. He thought the minutes of the meetings would be useful.

Mr. Ruaro continued to review slide 27.

Co-Chair Stedman asked about the last bullet on the slide.

Senator Bishop asked about slide 26, and asked if the blue line was representative of the Mustang Road.

Mr. Ruaro thought the blue line denoted the length of the Mustang Road.

Senator Bishop asked if the darker line was the Mustang Road.

Mr. Ruaro answered affirmatively.

Mr. Ruaro highlighted slide 28, "Mustang Road - Timeline (cont.)"

- CY 2017
 - Q1: Brooks Range assigns Mustang Road LLC (MR LLC) easement to AIDEA
 - Q2: AIDEA Board approves acquisition of 100% membership interests of MR LLC
 - AIDEA Board Resolution G17-06

- Q4: MR LLC and Brooks Range enter into a Road and Pad Use Agreement
- Q4: AIDEA informs DNR that the Authority has acquired 100% of the membership interests in MR LLC and asks for the assignment of ADL 419880 from Brooks Range
- CY 2018
 - Q2: Brooks Range and Oil Search Alaska (OSA) enter into a month-to-month SMU Infrastructure Use Agreement

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Co-Chair Hoffman asked about the first quarter of 2017 when the Mustang Road was assigned to AIDEA. He asked if there was any value to the transfer.

Mr. Ruaro deferred the question to Mr. Johns.

Mr. Johns noted that the timeline was before his tenure but thought there was not any value related to the transaction. He noted that an entity, Mustang Road, LLC, was structured related to the potential road and use pad agreement and recovery of \$20 million in investment revenues that AIDEA had provided to BRPC. There was also a nominal working interest that Mustang Road, LLC had at the time in the SMU of 1 percent.

Co-Chair Hoffman asked if AIDEA had requested the easement.

Mr. Johns relayed that he needed to look for further information in the board resolution and documentation related to the transfer and assignment of the easement.

Co-Chair Stedman explained that the committee preferred additional documentation rather than having Mr. Johns make a misstatement.

Mr. Ruaro looked at slide 29, "Mustang Road - Timeline (cont.)":

- CY 2019
 - Q1: DNR grants Brooks Range a 20-year private, non-exclusive Mustang Road easement (ADL 419880)

- Q2: Oil Search Alaska (OSA) applies for an easement covering the entire length of the road crossing Brooks Range's and ConocoPhillips' leases
- Q3: OSA submits a supplement to the easement application addressing pump house pad location and a water source access road
- Q3: Brooks Range, via letter to DNR, states that the OSA easement application directly conflicts and overlays the Mustang Road easement (ADL 419880) and does not consider and protect the pre-existing easement

Mr. Ruaro added that Oil Search Alaska and BRPC disagreed on the ability to use the road.

Co-Chair Hoffman asked about the transfer of the Mustang Road easement in the first quarter of 2019, and whether it was the same easement that was granted to DNR in 2017.

Mr. Ruaro deferred the question to Mr. Johns.

Mr. Johns thought the clarification would need to be reviewed because the matter was specific to BRPC and understanding between the two different easement transfers.

[10:05:02 AM](#)

Senator Kiehl thought Mr. Johns had shared that in 2019, AIDEA had converted its ownership to that of a senior secured lender. He asked for more details.

Mr. Johns explained that in 2018, AIDEA commenced conversations with BRPC and its working interest owner group, specifically Caracol Petroleum, which was owned by a Singapore-based entity called Alpha Energy Holdings. In May of 2019, through transaction documents, AIDEA had restructured its involvement in the project from equity owner to senior secured lender in the form of a \$64 million loan, a separate \$6 million loan, and the assumption of a DOR loan of approximately \$16 million, which was subject to the audit discussed earlier.

Co-Chair Stedman asked about the collateral on the loans.

Mr. Johns stated that the collateral on the loans was principally the real property, which included leases of SMU

and other North Slope leases, as well as personal property in the form of equipment, bank loans, and other items.

Co-Chair Stedman asked if there were any letters of credit involved in the transaction.

Mr. Johns stated, "not to my knowledge," and relayed that he would confirm his statement.

Mr. Ruaro addressed slide 30, "Mustang Road - Timeline (cont.)":

- CY 2020
- Q1: DNR grants OSA a 5-year entry authorization and a 35-year easement term
 - Decision limited to determination whether granting easement will be of greatest economic benefit to Alaska and resource development
 - Access states OSA shall coordinate with other lease and easement holders and shall not unreasonably interfere with access or operations in leases held by other operators.
- Q1: Brooks Range files appeal concerning the DNR decision granting the overlapping easement
 - Basis of the appeal is that the granting of the easement to OSA, a 3rd party, constituted a taking of the private property (the Mustang Road) without consent or compensation
 - The appeal filing automatically stays the overriding easement decision; however, the then-DNR
 - Commissioner, under 11 AAC 02.606(a), removes the automatic stay, which remains removed until the appeal is adjudicated
- Q2: AIDEA and OSA entered into a Memorandum of Understanding and Cost Reimbursement Agreement to develop a financing plan for surface infrastructure including access roads and pads for the development of the Pikka Unit
 - AIDEA Board Resolution G20-24

Co-Chair Stedman asked for clarification about the commissioner that removed the automatic stay.

Mr. Ruaro clarified that it had been the DNR commissioner. He continued to address the slide.

Mr. Ruaro advanced to slide 31, "Mustang Road - Timeline (cont.)":

- CY 2021
 - Q2: DNR transfers the Mustang Road easement (ADL 419880) to Mustang Holding LLC
- CY 2022
 - Q2: Mustang Holding LLC assumes Brooks Range easement appeal re: OSA (now Santos) overriding easement granted by DNR
 - Mustang Holding LLC is granted opportunity to provide a supplement to the appeal
 - OSA (Santos) is granted a rebuttal to the supplement
 - Q3: Mustang Holding LLC comments on Santos export pipeline Right of Way Application (ROW)
 - Q4: DNR grants OSA (Santos) pipeline ROW
 - Q4: AIDEA declares a \$17.9 million dividend in cash or assets
 - AIDEA Board Resolution G22-15

[10:10:00 AM](#)

Co-Chair Stedman asked Mr. Ruaro to repeat the information on slide 31.

Mr. Ruaro read from the slide to address the events in 2022.

Co-Chair Stedman thought Santos got use of the road with no compensation.

Mr. Ruaro answered affirmatively.

Co-Chair Stedman asked if Mustang Holdings, LLC were the new owners of the road.

Mr. Ruaro answered affirmatively.

Co-Chair Stedman asked what holding AIDEA had in Mustang Holdings, LLC.

Mr. Ruaro believed that AIDEA was the owner/operator of the LLC. He deferred to Mr. Johns to confirm the points.

Co-Chair Stedman asked Mr. Johns to address if Mustang Holdings, LLC was AIDEA.

Mr. Johns answered affirmatively, and explained that AIDEA had created Mustang Holdings, LLC to hold the assets that were acquired in the 2020 non-judicial foreclosure.

Co-Chair Stedman asked for a definition of LLC.

Mr. Johns explained that LLC signified limited liability corporation.

Co-Chair Stedman referenced lost cash. He asked about Santos' renumeration back to AIDEA. He asked for clarification about the dividend.

Mr. Ruaro wanted to clarify that Santos contributed to the maintenance of the road.

Co-Chair Stedman assumed that Santos paid a nominal fee for wear and tear to the road.

Mr. Ruaro agreed.

[10:13:32 AM](#)

Co-Chair Hoffman asked about the importance of the easement.

Mr. Ruaro explained that the easement right allowed for the use of the road.

Co-Chair Hoffman asked what the road was used for.

Mr. Ruaro informed that the road was used for access to the Pikka Unit and access to the Mustang Pad. He thought the road was tied into ConocoPhillips pads.

Co-Chair Stedman asked if Santos had any interest in the Mustang pad, or if its interest lay in physical assets beyond Mustang that it would want to use the road for.

Mr. Ruaro answered affirmatively.

Co-Chair Olson asked how the decision was made for use of the road without compensation. He found it bothersome and

discussed a multi-national for-profit company using the road without compensation.

Mr. Ruaro had not studied the matter extensively but understood that Oil Search Alaska, LLC had filed an application and designated a general land use permit (which brought rights of use) that overlapped the easement and the road. The commissioner had granted the authorization, which brought with it the right to use the road.

Co-Chair Stedman asked if the practice of the general land use permit was normal or rather a creative land use by the commissioner.

Mr. Ruaro had never heard of the practice but acknowledged that he had not had a lot of experience with DNR authorizations.

Co-Chair Stedman asked Mr. Johns to address general land use permits and accessing state owned assets for only paying maintenance costs.

Mr. Johns understood that it was the only instance in which a third party had been granted an overriding easement on another parties previously owned asset and pre-approved easement.

[10:16:52 AM](#)

Senator Merrick asked who the DNR commissioner was at the time the authorization was granted.

Mr. Ruaro thought it was Commissioner Corri Feige.

Co-Chair Stedman wanted to discuss the funding.

Co-Chair Olson wondered how much money the state put into the Mustang Road via project financing loans, bridge loans, and tax credits. He wondered how much had been paid back in dividends minus the value of the asset. He noted that the road was across wetlands and assumed it would not be used save for those accessing the oil fields.

Co-Chair Stedman asked to refer the question to Mr. Johns. He additionally queried any assessments of value of the road. He wondered how the value of the road had changed over time.

Mr. Johns reiterated that in approximately 2012, AIDEA had provided a \$20 million loan to BRPC specifically for construction of the approximately 4.5-mile Mustang Road and 17-acre Mustang pad. The total construction of the two elements was approximately \$26 million, \$16 million of which was applied to the Mustang Road. He referenced an as-built valuation performed in 2016, and an independent third-party evaluation of the road performed in November 2021.

Co-Chair Stedman mentioned the importance of the monetary values.

Mr. Johns relayed that the most recent valuation of the road was \$13.9 million.

[10:20:25 AM](#)

Co-Chair Stedman estimated that the total cost was \$26 million.

Mr. Johns answered "yes." He noted that in the 2013 dollars, \$15 million to \$16 million was specific to the road.

Co-Chair Stedman wanted to know what the total cash outflow was, and the inflows in order to know the net amount. He asked about who had received the substantial credits that had been available.

Mr. Johns relayed that there was a history of some credits received by an entity involved in the project. He offered to provide the details along with the other information that was requested by the committee. He cited that more recently, Mustang Operations Center 1 (MOC 1) received a sum of \$12 million in the two most recently provided tax credit payments through DOR.

Co-Chair Stedman asked if Mustang LLC or AIDEA got renumerated any credits through collateral or financial transactions or if all the credits went to other parties.

Mr. Johns clarified that AIDEA was the owner of Mustang Holding LLC, and Mustang Holding LLC owned the entity referred to as MOC 1, and the MOC 1 entity had received the \$12 million in tax credit payments.

Co-Chair Stedman asked Mr. Johns to help the committee understand the data that it would be spending. He made note of the importance of the committee's understanding of the cash inflows and outflows, including tax credits. He asked for a footnote of the assessment, and when the write-down appeared on the books. He wanted a clear timeline and clear information on cash.

Senator Kiehl asked about the 2019 conversion, when there was mention of a \$16 million loan assumption by DOR. He asked about the original source of the loan and whether AIDEA had provided cash or assets in exchange for assuming the loan.

Mr. Johns relayed that it would be necessary to review documentation related to the loan to provide the details.

[10:24:26 AM](#)

Mr. Ruaro addressed Senator Kiehl's question and noted that the source of the loan was also a subject of the legislative audit. He thought the audit would identify the exact source of the DOR loan.

Co-Chair Stedman affirmed that the audit, in combination with the other data, would create a clear picture of the information.

Co-Chair Hoffman considered the asset of \$13.9 million for the road and the \$4 million in cash that the state would receive as a dividend. He did not understand how one would pay with an asset, which was listed as payable in FY 24. He noted that the \$35.8 million statutory net income of AIDEA was the highest in 8 years. He considered that instead of keeping 50 percent of the net income, AIDEA would be keeping 90 percent or more. He asked how the board was planning to use the additional revenue. He wondered about the difference in expenditures from the previous year.

Mr. Ruaro was not aware of an identified spending allocation for the funds.

Co-Chair Hoffman asked Mr. Ruaro to look at the proposed budget spending, whether there was a \$14 million increase, and where it was proposed to be allocated. He asked for a

list of the board members and locations, as well as a list of job responsibilities.

Co-Chair Stedman considered the \$17 million dividend paid in cash and the road asset. He questioned what the state would do with the road when it was transferred to the state.

Mr. Ruaro affirmed that the road would divert in ownership to DNR; which could retain ownership and charge an access fee or release, sell, or dispose of the road.

Co-Chair Stedman surmised that the committee could have a conversation with DNR regarding the \$13.9 million dividend.

[10:28:43 AM](#)

Co-Chair Hoffman emphasized that the legislature was the entity that appropriated funds. He continued that the legislature oversaw AIDEA, and pondered whether the legislature had the flexibility in the budget process to say that it wanted a cash dividend.

Co-Chair Stedman thought the question should be directed to the Division of Legal and Research Services.

Co-Chair Hoffman thought it would seem as though the legislature would have the option as the AIDEA Board was not the appropriating body.

Co-Chair Stedman agreed. He thought if the legislature wanted a transaction between DNR and AIDEA to release any of the road, perhaps DNR should buy the road from AIDEA.

Mr. Ruaro understood that the road was in a strategic location for access to both the Pikka Unit and the Willow Project. He thought there would be a need for the pad and the road.

Co-Chair Stedman thought Santos would prefer not to build its own road. He thought there was a quagmire to unwind.

Senator Kiehl asked, given the commissioner's decision about non-exclusive access on the surface, how much ability was there to make money off the strategic position of the road.

Mr. Ruaro thought Senator Kiehl had posed a good question. He considered that there was access needed and staging use of both the pad and the road, but he was unsure how to value the uses.

Co-Chair Stedman mentioned an appraisal of the road of roughly \$13 million. He thought it would be nice to have a general idea of the cost to replace the road. He noted that it was possible to pick up the material and engage in reclamation of the land if desired.

Mr. Ruaro relayed that AIDEA could try to get a replacement cost estimate.

Co-Chair Stedman thought the estimate would be helpful.

[10:31:32 AM](#)

Co-Chair Hoffman asked for fees and permits costs to be included in the estimate. He queried the total cost of building an alternative road.

Co-Chair Stedman asked for a time frame to be included.

Mr. Ruaro agreed to work on the information requested by Co-Chair Hoffman and Co-Chair Stedman.

Co-Chair Stedman thought DNR could be helpful in assembling the information.

Senator Bishop thought Mr. Ruaro had indicated that there was at least one interested party looking at purchasing the whole project.

Mr. Ruaro answered affirmatively.

Senator Bishop asked if an individual could view the assets if they wanted to sign a non-disclosure agreement (NDA).

Mr. Ruaro answered affirmatively.

Co-Chair Stedman pondered the purchase of the Mustang Pad and leases and asked about road access.

Mr. Ruaro thought the assets were severable and could be sold individually or together. He continued that AIDEA was actively trying to find the best solution for the project

that resulted in the most return possible. He did not think the return would reach 100 percent or anywhere close.

Co-Chair Stedman asked about the general land use permit, which was available but perhaps never used, and wondered if it could be repealed.

Mr. Ruaro was not certain of the terms of the permit.

Co-Chair Stedman thought the committee needed the information and mentioned the loss of \$13.9 million.

Mr. Ruaro relayed that there was a large amount of detail and backup information that AIDEA would put together to assist the committee. He commented on the quantity of information.

Co-Chair Stedman knew that Mr. Ruaro was working hard to unwind the issue, which he had inherited. He mentioned previous discussions.

[10:35:28 AM](#)

Mr. Ruaro spoke to slide 32, "2022 Dividend Details/Components":

- Total \$17,904,000 in Cash and Assets
- Cash: \$4.0 million
- Assets: \$13.9 million
- Mustang Road*

Co-Chair Olson asked if DNR was currently responsible for the road maintenance.

Mr. Ruaro believed that Mustang MOC 1 was responsible, and that Santos was performing some maintenance to the road.

Co-Chair Stedman thought Mr. Ruaro was not referring to AIDEA's Mustang Holding LLC.

Mr. Ruaro answered "no," and indicated that MOC 1 was a subsidiary.

Co-Chair Olson considered AIDEA, which was given a grant of \$300 million in the 1960s to get started. He mentioned a recent critical report by some senior economists in the area that indicated that if the funds had been invested

there would have been a current balance of over \$10 billion. He thought it looked as though there was not a good rate of return in the state's investment from the 1960s. He considered budget requests put before the committee. He mentioned the West Susitna Access Road and thought AIDEA should look at the project with a streak of pessimism.

Mr. Ruaro informed that AIDEA was engaged in a full rebuttal of the report and thought there were inaccuracies, such as the Red Dog Mine's ability to move forward without any assistance from AIDEA. He relayed that AIDEA was reviewing the historical and fiscal facts and would have a full rebuttal report at some point soon. He emphasized that AIDEA disagreed with the statements and conclusions in the report.

Co-Chair Stedman looked forward to seeing the rebuttal. He asked if AIDEA had hired a consultant to help with the analysis.

Mr. Ruaro informed that North Economics had been engaged and AIDEA staff were also researching the historical and fiscal facts. He anticipated a strong rebuttal of the report.

[10:39:09 AM](#)

Senator Merrick thought it seemed as though the AIDEA Board was making some significant decisions. She asked for more information about the board composition and selection process.

Mr. Ruaro informed that the board had seven members, including two commissioners from DOR and the Department of Commerce, Community and Economic Development. He listed Mr. J. Dana Pruhs as the chair of the board. There were five public members appointed by the governor.

Senator Merrick asked about the length of terms for board members.

Mr. Ruaro believed the term was four years.

Mr. Ruaro showed slide 33, "THANK YOU."

Senator Kiehl appreciated the work AIDEA had done as the state's investment bank for a lot of small businesses and viable projects. He acknowledged that the banking business could be high risk when it came to development projects. He shared the concern about AIDEA radically expanding the risk when starting to build things without identified assets or deposits. He expressed significant concern.

Co-Chair Stedman referenced his request for Mr. Ruaro to come discuss the Mustang Project.

Mr. Ruaro thanked the committee for the opportunity to present and relayed that AIDEA would follow up with all the backup material that had been requested. He commented that AIDEA had been involved in a range of projects from low-risk to high-risk. He noted that the high-risk projects (such as the Red Dog Mine) came with a high value return, and he thought the projects were worth the risk.

Co-Chair Stedman thanked AIDEA's staff. He discussed the agenda for the following day.

#

ADJOURNMENT

10:42:44 AM

The meeting was adjourned at 10:42 a.m.