February 28, 2025

Sent via Fax, Hand-Delivery, and E-mail to:

Adam L. Beck, President
Vigor Alaska, LLC
5555 Channel Drive, Building 71
Portland, Oregon 97217

Adam L. Beck, President
Vigor Alaska, LLC
3801 Tongass Avenue
Ketchikan, Alaska 99901

Re: Ketchikan Shipyard – Non-Extension of Operating Agreement

Dear Mr. Beck:

This letter serves as AIDEA's notice to Vigor Alaska LLC ("Vigor") that AIDEA has decided not to extend the final ten-year extension under the Ketchikan Shipyard Operating Agreement. After reviewing Vigor's long-term economic performance, projections, extensive studies, repair budgets, and other documentation relating to the Shipyard, AIDEA has reasonably determined that Vigor has not demonstrated its ability to fully utilize all of the Shipyard's economic capabilities. As an independent basis for not extending the final term, AIDEA has also reasonably determined that contributions to the Repair and Replacement ("R&R") Account are inadequate to maintain the Shipyard in good condition. Accordingly, Vigor's term at the Shipyard expires on November 30, 2025. A summary of the basis for AIDEA's determination not to extend the term is provided below and is grounded in the data for Vigor's operation of the Shipyard that AIDEA has received throughout the term of the Agreement.

The Operating Agreement

In 2005, the Alaska Industrial Development and Export Authority ("AIDEA") and Vigor's predecessor entity, Alaska Ship and Drydock, Inc., executed the Amended and Restated Agreement for the Operation and Use of the Ketchikan Shipyard ("Operating Agreement" or "Agreement"). The initial term of the Agreement was ten years (Section 3.01), ending on November 30, 2015. The parties allowed for the possibility of two ten-year extensions that would begin in December 2015 and 2025 (Section 3.03). But those term extensions can only go forward if AIDEA has not made a reasonable determination under Section 3.03 that:

> (i) [Vigor] has not demonstrated its ability to fully utilize all of the Shipyard's economic capabilities (whether due to inadequate financial condition of [Vigor], inadequate bonding capability, or other reasons), including failure to operate the Shipyard as a viable enterprise that creates and maintains permanent jobs in Ketchikan and long-term economic development for the region; [or] (ii) contributions being made to the R&R Account pursuant to terms of this Agreement and other R&R funding options [Vigor] has implemented are inadequate to maintain the Shipyard in good condition….[1]

These provisions allow AIDEA to terminate the Operating Agreement and end its relationship with Vigor when the Agreement is not providing the expected economic returns and community benefits. The Agreement allows AIDEA to make this judgment call based on Vigor's past performance and the extensive data reflecting the Shipyard's economic situation.

Inability to Fully Utilize the Shipyard's Economic Capabilities

Vigor's total revenue at the Ketchikan Shipyard has decreased substantially over the current term of the Operating Agreement from 2015 to 2025. Likewise, average annual headcount has trended downward over that time period. These are significant indicators that the Shipyard is not working at its full economic capabilities.

The uptick in employment in 2024 is a positive note, but by itself does not indicate a sustained trend towards full utilization given the Shipyard has dropped from an average annual employment of 154 to 184 FTEs in 2015-2018 before dropping nearly half in 2019 and settling around 67-75 FTE from 2021 to 2023. The point of fully utilizing the economic capabilities of the Shipyard is to ensure the Agreement is meeting its goal of establishing "a viable enterprise that creates and maintains permanent jobs in Ketchikan and long-term economic development for the region." Halving the number of jobs at the Shipyard over a decade is strong evidence that Vigor is not fully utilizing the Shipyard's economic capabilities.

Looking over the many documents reflecting the Shipyard's performance and analysis of it, other key metrics follow similar trends over the course of the current ten-year extension of the Operating Agreement from 2015 to 2025, including payroll. AIDEA has seen a profit sharing payment in only two of the completed nine years, which is not particularly surprising given Vigor's downward revenue trend that predates the COVID-19 pandemic and the increasing maintenance costs for the facility. Notably, this downward revenue trend and limited profit-sharing to AIDEA has taken hold at a facility

[1] Section 3.03 allows a third independent reason for non-extension of an additional term, but AIDEA is not addressing that in this letter.

where Vigor enjoys significant tax and utility subsidies, and a major competitive advantage in the structure of the Agreement itself.

Ultimately, the analysis of whether or not Vigor is fully utilizing the economic capabilities of the Shipyard is simplified because we can see Vigor's much stronger past performance. The Ketchikan Shipyard can create more jobs for the community, generate more revenue, and overall be a more productive economic engine than its current utilization because from 2015 to 2018 shows that the Shipyard is capable of sustaining many more jobs and producing much more revenue than it has in recent years. The Ketchikan Shipyard is too important an asset to the community and to AIDEA to be running at roughly half-speed for another decade as it has been doing for roughly the last half-decade. The precise purpose of the non-termination clause in Section 3.03 of the Agreement is to allow AIDEA an opportunity to examine the data and trends to ensure that AIDEA can change course before committing to another ten years of Vigor operation. Those data and trends reflect that the Shipyard has been demonstrably underutilized the last several years. Accordingly, AIDEA has reasonably determined that Vigor has not demonstrated its ability to fully utilize all of the Shipyard's economic capabilities.

R&R Account Contributions are Inadequate to Maintain the Shipyard in Good Condition

The 2025 minor and major maintenance budgets are $761,125 and $334,500 respectively, which continue a necessary upward trend over the last several years. These budgets were prepared with an eye towards conducting only an engineering assessment of the receiving slab in 2025 and before identifying the immediate need for an extensive rehabilitation or replacement of the slab. Fixing the receiving slab, a key piece of the Shipyard's infrastructure is an unplanned (or vastly accelerated) project that will cost millions beginning this year. Vigor's own estimate of rehabilitation capital expenses for the next five years was over $58 million *before addressing the failing receiving slab*.

As of yesterday, the R&R Account balance was $239,431.29 and the annual maintenance obligation is $420,013.76. The mathematics of the Agreement and the required contributions to the R&R Account combined with Vigor's historical performance are such that is difficult to envision any scenario in which the R&R Account contributions are sufficient to cover this year's major and minor maintenance budgets totaling just shy of $1.1mm, let alone the already identified $58 million in necessary rehabilitation costs plus an unknown number of millions more to address the receiving slab. Even at much higher gross revenue sharing amounts seen in 2015-2018 (approximately $401-476,000 per year), the R&R account would fall far short of funding the necessary projects to maintain the shipyard in good condition.

This has been a difficult decision to make, but, as I have communicated to you in the past, AIDEA's management and Board have had growing concerns about the mounting maintenance expenses and underutilization of the Shipyard for some time. While not addressed in extensive detail here, the initial cost estimates to resolve the transfer slab issues only further emphasize how lacking R&R Account funds are relative to the Shipyard's needs.

The next step is for Vigor and AIDEA to work cooperatively on the demobilization and wind-down of Vigor's operation at the Shipyard while ensuring that ship work scheduled during that period is appropriately accommodated. Although Section 3.03 of the Agreement dictates that Vigor's term ends November 30, 2025, AIDEA is willing to discuss a plan for wind-down and demobilization of up to one year through March 1, 2026.

To minimize down-time between the end of Vigor's operations and the next occupant beginning use of the property, AIDEA will issue an RFI seeking new opportunities for the Shipyard in the next few weeks. I expect that it will also be necessary to have on-site visits with prospective occupants; we will coordinate those with Bergan Wieler and your Ketchikan staff to minimize disruption.

Please feel free to call or email when you are ready to begin addressing the necessary logistics for the next nine to twelve months.

Sincerely,



Randy Ruaro
Executive Director

cc: David Boyajian, Vigor Counsel (via email)