

## **Memorandum 11-095 Alaska Clean Water and Alaska Drinking Water Fund Loans for Kachemak Drive Phase Two Project**

**Memorandum ID:** 11-095  
**Memorandum Status:** Backup

MEMORANDUM 11-095

**TO:** Mayor Hornaday and Homer City Council  
**FROM:** Walt Wrede  
**DATE:** June 24, 2011  
**SUBJECT:** Resolution 11-066

Resolution 11-066 authorizes the City to borrow \$4,250,000 for construction of the Kachemak Drive Water and Sewer Project. This includes \$2.1 million from the Alaska Clean Water Fund (sewer) and \$2.15 million from the Alaska Drinking Water Fund (water). The interest rate is presently 2.5% maximum.

There are several things that I wanted to bring to your attention about this proposed financial transaction:

First, These are two entirely new loans which will be used to finance the construction phase of the project. The City has two existing loans ( #40981 and #409101) under the same loan programs which financed the first phases of this project. These two grants will be closed out and nothing else will be charged to them. They also provided financing for two other projects. DEC wanted to do this to make it cleaner and avoid potential funding and audit problems. Recall that many of these charges are up to five years old already. The remaining loan authorization was not enough to cover construction costs in any event. The City charged \$469,839 against these loans for Kachemak Bay Phase II. This was for engineering, survey, design, permitting, a hydrology study, etc. Loan #40981 has \$1,004,844.48 of authorization remaining and Loan 409101 has \$47,815.30 remaining. This authorization will be extinguished and nothing more will be borrowed against these loan agreements.

Second, The total loan amount to be authorized under this resolution is \$4,250,000.00. A subsequent resolution on the agenda, Resolution 11-068, awards a construction contract to the low bidder in the amount of \$3,533,004.74. Therefore, if everything goes according to plan and there are no surprises, we should not have to borrow the entire amount authorized. If there are cost overruns or change orders that cannot be anticipated now, there is some leeway to borrow more if necessary and appropriate.

Third, Regina has provided you with information on the impacts this will have on the City's debt and HAWSP's ability to make the new debt payments. In short, we can afford to assume this new debt, but it is very tight. If this resolution is approved, I would recommend that we place a freeze on new water and sewer debt until we pay some of it off and reduce the obligation. This is a real dilemma for the Council. On the one hand, this is a really important project that needs to move ahead for a wide variety of reasons. But, the idea of assuming more debt concerns us all. In the end, I think we are too far along with this project, and the benefits are too important, to abandon it now.  
**RECOMMENDATION:** Approve Resolution 11-66.

Related Resolutions **Memorandum - Related Resolutions:** [Resolution 11-067 Alaska Clean Water Fund and Alaska Drinking Water Fund Loan for Kachemak Drive Phase Two Water and Sewer Project](#)

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