Memorandum 13-030 Re: Natural Gas Distribution System Introduction

Memorandum ID: 13-030
Memorandum Status: Backup

MEMORANDUM 13-030

TO: Mayor Wythe and Homer City Council
FROM: Walt Wrede
DATE: February 19, 2013
SUBJECT: Loan Agreement / Natural Gas Distribution System Introduction / Background

The City of Homer and the Kenai Peninsula Borough have been in discussions since last summer about the possibility of the Borough providing the financing for the proposed natural gas distribution system within the City. The Borough offered attractive terms that met the needs of the City and a tentative agreement was reached late last year. Working with the Borough made sense for both parties on many levels and based upon the tentative terms and conditions, it was assumed that commercial lenders would not be competitive. The Borough Assembly has already adopted an ordinance which amends the Borough code to allow the Borough to loan money to the City. During this process, it came to the City's attention that several commercial financial institutions were interested in providing financial services to the City for this project. Based upon preliminary discussions with those lenders, it became apparent that the lenders were motivated to offer attractive and competitive terms. The City decided it was in its interest to more fully explore all of the financing options available to it and proceeded to solicit proposals through a formal RFP process. Three proposals from Alaska banks were received. The Borough was not required to go through the formal RFP process for a variety of reasons including the provisions contained in HCC 3.16.060 (g) and the Alaska Constitution, Article X, Section 13.
A proposal review committee was formed which included Council members Roberts and Burgess, Kachemak City Mayor Phil Morris, Finance Director Regina Mauras, and City Clerk Jo Johnson. The first committee meeting was on February 8th. At that time, the committee reviewed and ranked the proposals pursuant to the RFP selection criteria and selected the top proposal. I was asked to visit the top proposer and seek clarification on a few issues and negotiate the best terms possible. That meeting took place on February 13th. On the same day, I had contact with the Borough and provided the Mayor with an opportunity to clarify a few things with respect to fees and to amend and supplement his loan offer, which he did.
The committee met a second time on February 8th to review and discuss the results of my meetings with the top proposer and the Borough. The committee unanimously concluded that it was in the City's best interest to work with the Borough because it offered the best terms and conditions and because there were many social and economic benefits associated with doing so. The committee voted unanimously to recommend that the City Council enter into a loan agreement with the Borough.

Why the Borough?
There are a number of advantages for both governments if the City worked with the Borough on financing construction of the gas distribution system. This is a classic win-win scenario. From the City's perspective, the Borough is offering the lowest interest rate (4% fixed) and the lowest fees (less than $10,000, no financing or loan servicing charges). It is also offering a repayment schedule that is very attractive and well suited to the City's financial capacity and the specific circumstances surrounding this special assessment district. (principle payments deferred until 2015). This allows the City to pass along a good interest rate to property owners in the special assessment district. It also provides the City with financial flexibility and defers most of its cash flow and repayment exposure until 2015 when assessment revenue begins to accrue.
From the Borough perspective, it is able to earn a significantly higher return on its investments than it is now; a benefit for all Borough residents. In addition, by financing the construction of the distribution system at attractive terms, the Borough is insuring that it will quickly receive the benefits of much lower heating costs at the hospital, all four schools, the Borough office building, and the maintenance shop. This is a significant budget savings for all Borough residents.
Finally, from a broader perspective, there are tangible social, economic, and policy advantages associated with the Borough loaning money for this project. We are essentially taking taxpayer's money and reinvesting it right back

into two Borough communities. This is a good investment in the health, safety, and economic vitality of the Southern Peninsula and there is a good return on the investment for all Borough residents. We appreciate the Borough's willingness to do this and its forward thinking approach to the welfare of its residents and communities.
RECOMMENDATION: Approve Ordinance 13-03

Related Ordinances**Memorandum - Related Ordinances:** Ordinance 13-03(S)(2) Authorizing the City to Issue a Natural Gas Distribution Special Assessment Bond in the Principal Amount of Not to Exceed $12,700,000 to Finance the Design and Construction of Natural Gas Distribution Improvements

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