

NOTICE OF MEETING
REGULAR MEETING AGENDA

1. CALL TO ORDER/ROLL CALL
2. APPROVAL OF THE AGENDA
3. PUBLIC COMMENTS REGARDING ITEMS ON THE AGENDA
4. RECONSIDERATION
5. APPROVAL OF MINUTES of January 10, 2011 p. 1
6. VISITORS
7. STAFF/COUNCIL/BOROUGH/KACHEMAK CITY REPORT
8. PUBLIC HEARING
9. PENDING BUSINESS p. 5
 - A. Financing options
10. NEW BUSINESS
11. INFORMATIONAL MATERIALS laydown
 - A. Large format Homer city street map with proposed transmission line route
 - B. Estimates on cost saving - natural gas vs. alternatives
12. COMMENTS OF THE AUDIENCE
13. COMMENTS OF THE CITY STAFF
14. COMMENTS OF THE COUNCIL MEMBERS
15. COMMENTS OF THE CHAIR
16. COMMENTS OF THE COMMISSION MEMBERS
17. ADJOURNMENT/NEXT MEETING DAY AND TIME
Next meeting is scheduled for _____ in the Homer City Hall Cowles Council Chambers located at 491 E. Pioneer Avenue, Homer, Alaska.

Session 11-01, a Regular Meeting of the Natural Gas Distribution Task Force was called to order by Chair Heimbuch at 12:00 p.m. on January 10, 2011 at the City Hall Cowles Council Chambers located at 491 E. Pioneer Avenue, Homer, Alaska.

COMMITTEE MEMBERS: Heimbuch, Howard, Pate, Story, Zak

STAFF: City Manager Wrede
Special Projects Coordinator Holen
Deputy City Clerk Jacobsen

APPROVAL OF THE AGENDA

The agenda was approved by consensus of the Task Force.

PUBLIC COMMENTS REGARDING ITEMS ON THE AGENDA

There were no public comments.

RECONSIDERATION

No reconsiderations were scheduled.

APPROVAL OF MINUTES

A. December 13, 2010 Synopsis

The synopsis was approved by consensus of the Task Force.

VISITORS

A. John Sims and Charlie Pierce, Enstar Natural Gas Co.

Mr. Pierce spoke to the group about financing and provided a basic overview of the two financing options. One option is a private option where a homeowner can contact Enstar's marketing department for an estimate to get gas service to their lot. Most of the properties in town are less than 5 acres so mains would be extended from property corner to property corner. He noted their tariff is written on a cost-causer/cost-payer basis. Mr. Pierce explained how Enstar's process of averaging for determining the costs per foot and the 2010 construction season cost was \$17.90 per foot to extend a 2" pipe. After the major line is run, most Homer properties would be served by 2" pipe. Mr. Pierce said that Enstar does not finance main extensions. Another option is to use a Utility Special Assessment District (USAD) or Local Improvement District (LID). In this case the City has to establish their process and determine their percentage of property owners in agreement to assess themselves for the improvements and also the public process. In the LID process the City would become the customer of Enstar. Whatever language the City comes up with for their LID has to be consistent with Enstar's tariff language.

The Enstar representatives responded to questions from the Task Force.

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Mr. Pierce explained the mechanisms and timelines in place for the property owner bearing the installation cost of a main line to receive reimbursement when neighboring property owners get a service extension off that main line at a later time. In an LID situation Enstar would collect the total amount of construction and as meters are set the reimbursement would be paid directly to the City. Mr. Sims added that Enstar is able to work on LID's and private main extensions at the simultaneously in an area.

Mr. Pierce commented regarding the topography and density. Enstar has done some market analysis in the area and estimates about 3500 structures needing about 110 miles of distribution main with about a 10 year build out. There hasn't been any consideration of what areas to do first. Typically in other areas, they grow as individuals are able to pay the cost to add on. He explained their initial plan would be to have phase 1 be developed to the high school and phase 2 on out through Kachemak City. He reviewed some examples of the challenges with the City's limited space in rights-of-way, water table issues, limited availability of gravel, side slopes in some areas, and dealing with locations of other utilities. He noted that some additional costs will be incurred in some of those cases and through their tariff those costs can be passed on to the cost-causer. He noted benefits include fuel and energy cost savings to the consumer.

Regarding location of the main line, Mr. Pierce explained that because the entire Pioneer Avenue right-of-way is taken up, they are planning to go up West Hill and across the right-of-way to Fairview through town and stop at the high school. As the line comes along the highway to town they will leave a tap to accommodate an extension at Diamond Ridge to bring distribution over the top as well.

Mr. Sims commented that this more of a City and Borough issue than a political issue. The politics involved to get funding for the main line is not something that Enstar is going to get in the middle of.

Mr. Pierce explained that they don't have a specific road map for development. Properties will be connected as those property owners or boundaries wish to acquire service. Projects will be reviewed on an individual basis with a separate cost estimate for each. It will grow as properties can afford to connect. In every project the rate and FMA's are adjusted annually, but regardless of who is the customer, the City or an individual, Enstar charges the same rate. He noted the extensive cost to accommodate the line down Pioneer Avenue so the alternate route from West Hill road meets their goal to take the most cost effective direct route and serve the greatest number of customers at the same time.

Mr. Sims commented about the media information regarding supply that has been circulating. The challenge they are faced with right now is the deliverability component. They aren't too concerned with the overall load until 2013 and beyond. The hearing for the storage project in Kenai is going on now and that will be a very important step to expansion for Enstar's entire system. They will rely on the service of the storage facility along with the other local utilities. The future of Homer and the rest of natural gas expansion is hinging on what happens with the storage project this week. They aren't concerned with the next couple years, but 2013 and beyond are very concerning. They are constantly looking for new gas supply contracts and ways to get natural gas into Cook Inlet.

Mr. Pierce spoke about some additional costs that could be incurred over and above the average cost per foot. Permitting could have impact on cost. Currently they are working with

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the Corps of Engineers regarding the serviceability and how their work in the area will be viewed. There are also SWIP plans for some projects depending on size, wetland issues, and asphalt costs. Generally the tariff rate covers normal ditching and backfilling for a line.

Mr. Pierce explained that Enstar will do safety training with the police and fire department and they do training in their service areas annually. It is required by DOT to have that communication so emergency responders in the City know how to handle the characteristics of natural gas.

Regarding notifications of a project typically they do door tags and rely on word of mouth. There will be a representative in Homer handling marketing issues for a period of time during the initial build out.

STAFF/COUNCIL/BOROUGH/KACHEMAK CITY REPORT

City Manager Wrede reported that there have been some discussions with Public Works regarding amendments to the existing ordinance and staff will be bringing recommendations for the Task Force to review.

Representative Paul Seaton thanked the Task Force for working forward on this. It's the answer to one of the questions submitted by House Finance on how to build out a plan and also supply it east of town. Many things are happening across the State from wind turbines in rural areas to help get those folks away from diesel, and this is another opportunity to provide an alternative energy source. The build out of the system is a local responsibility and the group will decide how to handle the local build out. The State input is trying to provide access to an alternative fuel source.

PUBLIC HEARING

No public hearings were scheduled.

PENDING BUSINESS

No pending business items were scheduled.

NEW BUSINESS

A. Financing Options

City Manager Wrede reviewed the information about financing options provided in the packet.

Discussion ensued regarding the special service district concept. City Manager Wrede noted that an advantage of this option is that not everyone has to pay at once. Property owners will be assessed the special service mill rate as their areas are connected. In regard to additional costs in areas with challenging topography Mr. Wrede acknowledged that piecemealing it neighborhood by neighborhood could likely result in some areas paying more than others. He noted that since Kachemak City is paying their costs up front to Enstar, all the residents there will be paying the same amount regardless.

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There was discussion that City Council does have questions but they have passed multiple resolutions supporting natural gas in Homer, they established the Task Force to work on this, and added the gas line extension high on their CIP list. The Borough is going to put it on their CIP list, the school district added it as their top project. There is real political movement in the region for at least the construction of the main transmission line through to Kachemak City.

City Manager commented previously that if the mill rate goes over 6 mills then the sales tax levy is no longer in effect. Question was raised if that applied to the Special Service District mill rate, and City Manager Wrede thinks the Special Service districts can go over 6 mills with no impact on the sales tax.

INFORMATIONAL MATERIALS

No Informational Materials were provided.

COMMENTS OF THE AUDIENCE

There were no audience comments.

COMMENTS OF THE CITY STAFF

There were no staff comments.

COMMENTS OF THE CHAIR

There were no comments from the Chair.

COMMENTS OF THE TASK FORCE

Mrs. Howard thanked Special Projects Coordinator Holen for the well written, well balanced staff report.

Mr. Pate advised will be absent from the next meeting.

Mr. Story and Mr. Zak had no comments.

ADJOURN

There being no more business to come before the Committee the meeting adjourned at 1:02 p.m. The next regular meeting is scheduled for January 24, 2011 at 12:00 p.m. in the City Hall Cowles Council Chambers.

MELISSA JACOBSEN, CMC, DEPUTY CITY CLERK

Approved: _____



CITY OF HOMER CITY HALL MEMORANDUM

To: Natural Gas Distribution Task Force
Through: Walt Wrede, City Manager
From: Anne Marie Holen, Special Projects Coordinator
Date: January 19, 2011
Subject: Investigation of Financing Mechanisms WITH CORRECTIONS from previous version

The purpose of this memo is to describe the potential financing mechanisms that have been investigated by staff so far. Some were determined to be unworkable for Homer but are included here to provide a more complete picture of the research that has taken place to date. (Also, it appears that a couple of these programs might work for neighboring communities.) The second part of the memo describes options which should work within Homer city limits and therefore deserve further consideration by the task force.

These programs have been ruled out for Homer:

1. The City of Homer, in cooperation with Representative Paul Seaton's office, has investigated several USDA grant and loan programs to see if they might be a source of funding for the natural gas pipeline project within Homer. The short answer is "no." The programs are summarized below.
 - Rural Economic Development Loan Program: **Kachemak City** might be able to use this program to secure up to \$750,000 in a 0% loan guaranteed through a property tax assessment. Homer Electric Association would have to be willing to act as an intermediary on the loan. (Kachemak City has approached HEA with this proposition.) Because the maximum available in any given year is only \$750,000 (statewide), the program is not adequate to meet needs within the City of Homer.
 - Rural Business Enterprise Grant Program: This program is intended to "support the development of small and emerging private business enterprises in rural areas." Our thinking was that the availability of natural gas would support business development. However, we learned that because the gas distribution system would be owned by a large company (Enstar) rather than a small company, the project would not be eligible for funding.
 - Rural Energy for America Program: This program is used to fund both renewable energy programs and energy efficiency improvements. We had thought that because natural gas infrastructure would make it possible to increase energy efficiency (e.g. in boilers and other equipment), our project might be eligible. However, we were told that a natural gas distribution system would be outside the parameters of the grant program.

2. The City also investigated whether areas within city limits would be eligible to apply for status as a Kenai Peninsula Borough Utility Special Assessment District (USAD). The answer is no, because the program only applies to unincorporated areas within the borough. **Anchor Point** is looking at this program. It would add a special assessment to property taxes in areas where a majority of property owners agree to form the USAD. Loans are repaid in this fashion with an interest rate equivalent to the prime rate in effect at the time plus 2%.

These programs could work in Homer:

1. Enstar’s Main Line Extension Agreement Program: Within its tariff approved by the Regulatory Commission of Alaska, Enstar can extend main lines into neighborhoods through agreements with property owners who request the extension. In this situation, Enstar determines the cost, which is then paid by the property owner in one lump payment. If it is necessary for a line to cross under a street (because lines are run only on one side of a street; not both), Enstar will pick up that cost. Likewise, if Enstar decides to put in a larger line (larger than the typical 2-inch pipe) in anticipation of future needs, current property owners involved in the Main Line Extension Agreement will not be asked to pay the additional cost. When additional property owners ask for natural gas service in future years, a formula is applied so that early customers get some reimbursement.

Currently, Enstar’s fees for a main line extension are \$17.90/ft. for the main line (down the street) and \$948 for the first 100 feet of service line (to the house or building), with additional charges of \$2 for every foot thereafter.

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"> • No government subsidies or financing involved • No administrative costs for local government • Only those who want service pay for it 	<ul style="list-style-type: none"> • No financing for property owners – full cost to be paid up front • Slower build-out community wide • Reduced benefit in terms of economic development and Climate Action Plan objectives

2. Mill rate payback: This strategy is the same as the one Kachemak City is currently pursuing. The City would obtain financing for construction of the main lines, and then all property owners would pay for the lines over time through a property tax mill rate increase.

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"> • Community-wide investment allows faster buildout • Costs are spread to all property owners • Greater economic and Climate Action Plan benefits • No up-front costs to property owners for main line construction • Easy for local government to administer 	<ul style="list-style-type: none"> • Everybody pays whether they want service or not • Property taxes will go up • Could be a problem in terms of City’s mill rate cap of 6%. (If mill rate goes higher, sales tax is eliminated.)

3. Special Service Districts: This is a variation of the mill rate payback strategy. It would assume a phased build-out, neighborhood by neighborhood. Property owners within a neighborhood (defined area) would ask to form a Special Service District. City Council could approve the SSD with no particular threshold of participation. Enstar would provide a cost estimate and the City would obtain financing for construction of mains. Property owners would then repay the costs through a mill rate increase applied only to that service district.

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"> • Entire neighborhoods get natural gas all at once • Property owners pay back City over time, through property tax increase (no up-front cost other than service line) • Only the service area pays • Mill rate increase in service area would not affect City's overall property tax cap • No threshold to join Special Service District (unlike LID – see below) • City would have effective enforcement mechanism (lien on property) 	<ul style="list-style-type: none"> • Everybody in service district pays whether they want service or not

4. Local Improvement Districts (LIDs): The City already uses LIDs to extend water/sewer service to neighborhoods. A change in City Code would be needed to provide for natural gas LIDs. Neighborhoods would petition to apply. (With water/sewer LIDs, 50% of property owners in the district must request the LID for the Council to consider it.) Enstar would provide a cost estimate and then the property owners would reconsider the proposal. If they decide to form an LID, the City would obtain financing and then pass the costs on to property owners through a special assessment, collected annually until loan is repaid.

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"> • Property owners would have financing, so payments would be spread out over time with low interest • Only neighborhoods that want the service will get it 	<ul style="list-style-type: none"> • 49% may want service but not be able to get it • LIDs are costly and time consuming for the City to administer • LIDs pose a greater financial risk to the City than a mill rate increase

Possible financing tools for the City

1. Commercial loan: The City of Homer could apply for a commercial loan to cover the costs of constructing main lines in neighborhoods.

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"> • City has good credit rating; should have no problem obtaining loan 	<ul style="list-style-type: none"> • Commercial loans have higher interest rates than some other forms of financing, which the City would have to pass on to property owners

2. Revenue bonds: Revenue bonds are paid back through revenues generated by the project. They could be used to pay for construction of gas mains if Special Service Districts and/or Limited Improvement Districts are set up in advance, thereby assuring a source of revenue.

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"> • Does not require voter approval (unlike GO bonds – see below) • Revenue bonds are sold tax exempt, making them attractive to investors (not true in this case) 	<ul style="list-style-type: none"> • The need to set up SSDs/LIDs in advance creates complications

3. General obligation bonds: GO bonds are secured by the City’s pledge of its full faith, credit, and taxing power. Because of this obligation and the lack of an assured revenue source from the project itself, the City must have voter approval to take on the debt.

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"> • Would have a lower interest rate than a commercial loan • GO bonds are sold tax exempt, making them attractive to investors (not true in this case) 	<ul style="list-style-type: none"> • Would require voter approval • General obligation means the City will do whatever is necessary to repay the loan