

NATURAL GAS DISTRIBUTION SYSTEM

SPECIAL ASSESSMENT DISTRICT

IMPROVEMENT PLAN

September 24, 2012

Introduction

The Homer City Council recently adopted Resolution 12-069 which initiated the Natural Gas Distribution System Special Assessment District. The Homer City Code (HCC 17.04.040 (b) (2)) provides that after a resolution initiating a special assessment district is adopted, the City Manager must prepare an improvement plan for the district. This document constitutes the improvement plan for the proposed gas distribution system special assessment district and contains the information required by code.

Boundaries of the District

When the City Council adopted Resolution 12-069 initiating the District, the intent was to initiate one special assessment district that would cover the entire area within the City limits. However, this does not mean that every lot or parcel in the City will receive direct access to gas. This special assessment district is designed to provide financing for construction of gas mains in most City streets. The City Council subsequently adopted Resolution 12-076 which established exclusion criteria to assist in determining which properties would not be served directly by gas mains constructed through the assessment district and which properties would be served but not benefitted and therefore exempted from the assessment district.

The exact boundaries of the proposed assessment district are difficult to draw on a map because of the size, complexity, and special characteristics of this district. The boundaries of the district can better be articulated by a narrative definition. This special assessment district includes all lots or parcels that are directly benefitted by the proposed improvement. Directly benefitted is defined as properties that have frontage on a road which contains a gas main. Properties fronting the trunk line that was partially funded with a legislative grant are also included. A list of properties within the assessment district is contained in the Preliminary Assessment Roll which is attached as Exhibit A. The preliminary assessment roll does not contain properties that are served but exempt from assessment under Resolution 12-076. Finally, Exhibit B is a map which shows the location and extent of the gas main improvements to be constructed. Lots with direct frontage on the mains are included in the assessment district.

Design of the Improvements

Exhibit B illustrates the location and extent of the gas main improvements. The improvements consist of 73 miles of pipe plus the portion of the trunk line which runs through the City. Most of the main lines

are two inches in diameter. Some are four inches in diameter if the demand load justifies it. Some are four inches or larger in order to provide for anticipated future growth. The specific design and engineering specifications will be the responsibility of Enstar Natural Gas Company. The exact location of mains within City Rights of Way will be determined through the City permitting process. Construction permits will be approved and construction work in City roads will be inspected by the Department of Public Works. The build-out of this construction project is expected to take two construction seasons. Exhibit B is color coded to show Year I and Year II phases, beginning with the downtown core in Year I. If this Special Assessment District is approved by January 2013, construction on the distribution system in the downtown area could begin in 2013.

Cost Estimate

Enstar has provided a construction cost estimate of \$12,160,632 for constructing the improvement other than the trunk line in the City (1). This translates into \$31.55 per foot (2). In addition to the construction cost, the City will add an administrative fee (3) and direct construction costs (4) to the total to be assessed. Based upon the number of properties to be assessed (3,855), it is estimated that the construction cost (excluding the cost of the trunk line in the City) per lot is \$3,283.30 plus interest on the portion of the project that the City will finance (5). This assessment number is anticipated to be an upper end, conservative estimate. The cost per property may be reduced depending upon the interest rate and the actual construction costs. The cost per lot will also be reduced by the Free Main Allowance (6).

NOTES

1. This is a not to exceed construction contract number and is good for two construction seasons provided a construction contract is signed in 2013. The estimate is probably high due to the large numbers of unknowns and the complexity of the built environment in Homer. The actual amount the City pays will be based upon actual costs. The City will receive invoices and have the ability to audit construction accounts. If the bids and actual costs are lower than this estimate, the assessments will be adjusted downward.
2. This number is significantly higher than the published tariff for standard construction. The tariff permits costs above the published tariff rate for non standard construction conditions; which Homer has. Costs that exceed the tariff rate must be justified and the City will request a full accounting.
3. Adopted Fee Schedule for Special Assessment Districts. For projects \$500,000 and over: \$25,000 plus 2.5%. The fee is \$316,515 and covers work by multiple departments to support this assessment district.
4. Direct Construction Costs: Estimated to be \$180,000. To cover the cost of seasonal inspectors, utility locators, project management, and equipment.
5. Interest: The assessment per property is estimated to be \$3,283.30 plus interest on the portion of the project that the City will finance. The interest rate is estimated to be 4% at this time. The City will take whatever interest rate it receives from the lender and pass it on to the property owner. The City will make no money on interest.

6. The Free Main Allowance is a type of refund the City will receive when properties hook up to natural gas. The intent is to partially compensate the City for its investment in the infrastructure. Initial estimates are that the City will receive \$1.6 Million in refunds over 10 years. The free main allowance can be applied to the City's loan payments and therefore reduce assessments.

Financing

The City will pay Enstar Natural Gas Company to construct the distribution system. Enstar will construct, own, operate, and maintain the system and assume all liability. In order to pay for construction, the City will need to borrow \$12,160,632; the balance of the construction cost will be paid for from grant funds. This can be done a variety of ways including selling special assessment bonds, obtaining AIDEA loan guarantees for a commercial loan, selling revenue bonds through the Alaska Municipal Bond Bank, and borrowing money from the Kenai Peninsula Borough. The City will weigh all of the alternatives in an effort to obtain the best terms. The decision on where to obtain financing will likely be made in November or December. This improvement plan anticipates a ten year term.

Percentage of Improvement Cost to be Assessed Against Properties in the District

75% of the cost of the improvement, including administrative and direct costs will be assessed against properties in the District. 25% of the cost of the improvement will be paid from grant funds.

Method for Allocating the Assessed Cost for the Improvement Among the Properties in the District

Resolution 12-069 initiating the Special Assessment District stipulates that all properties in the District will be assessed equally regardless of frontage, square footage, or appraised value.

Time Period Over Which Assessments will be Financed

Ten Years

Preliminary Assessment Roll

See Exhibit A