

**COWLES COUNCIL CHAMBERS**  
491 E. PIONEER AVENUE  
HOMER, ALASKA  
[www.cityofhomer-ak.gov](http://www.cityofhomer-ak.gov)



**WORKSESSION**  
**4:00 P.M. – 6:00 P.M. MONDAY**  
**FEBRUARY 6, 2012**

MAYOR JAMES C. HORNADAY  
COUNCIL MEMBER BETH WYTHE  
COUNCIL MEMBER FRANCIE ROBERTS  
COUNCIL MEMBER BARBARA HOWARD  
COUNCIL MEMBER DAVID LEWIS  
COUNCIL MEMBER BRYAN ZAK  
COUNCIL MEMBER KEVIN HOGAN  
CITY ATTORNEY THOMAS KLINKNER  
CITY MANAGER WALT WREDE  
CITY CLERK JO JOHNSON

**MEETING NOTICE**  
**WORKSESSION AGENDA**

- 1. CALL TO ORDER, 4:00 P.M.**
- 2. AGENDA APPROVAL** (Only those matters on the noticed agenda may be considered, pursuant to City Council's Operating Manual, pg. 5)
- 3. Natural Gas Distribution System**
- 4. COMMENTS OF THE AUDIENCE**
- 5. ADJOURNMENT NO LATER THAN 6:00 P.M.**  
Next Regular Meeting is Monday, February 13, 2012 at 6:00 p.m. and Committee of the Whole 5:00 p.m. All meetings scheduled to be held in the City Hall Cowles Council Chambers located at 491 E. Pioneer Avenue, Homer, Alaska.

## NATURAL GAS DISTRIBUTION SYSTEM DISCUSSION POINTS

### CITY COUNCIL WORKSHOP FEBRUARY 6, 2012

#### Introduction

The purpose of this paper is to provide a framework for discussion at the Council workshop on February 6. We only have two hours for the discussion so it will be important for us to stay focused on the major issues and decisions that are before the Council regarding the gas distribution system. This paper is broken into five sections entitled The Big Questions, Financing Mechanisms, Borrowing Options, Road Map to Success, and Other Topics for Discussion.

#### The Big Questions

***Should the City Provide Financing for the Distribution System?*** This is probably the most basic and fundamental question. If the answer is yes, then we have a lot of work to do and we need to get going as soon as we can. If the answer is no, then we are done. End of discussion.

An argument can be made that the City should do nothing. Enstar already has a mechanism and process in place for extending service that is approved by the RCA. It is not hard to envision the distribution build-out happening naturally once the gas is here. Things like the free main allowance and the location of the big consumers who are likely hook up quickly would contribute to this scenario. The City would be assuming risk, substantial administration effort, and a significant debt load if it participated and ownership of the financed infrastructure would end up resting with a private corporation.

On the other hand, there are powerful arguments for City financing and participation. These can be discussed in much more detail at the workshop but they include:

- Easier for local businesses and residences to hook up. Financing with easy terms and good interest rates. Otherwise, all costs must be paid upfront and in full.
- Economic Impact: Big impacts to the economy and the cost of living for local business and residences would occur much more quickly.
- Tariff paid off more quickly: The more people hooked up and paying the tariff, the quicker the proposed \$1.00 per mcf goes away; benefitting everyone.
- Enstar investment: Enstar is a business and projects need to "pencil". The quicker people hook up, the broader the customer base, and the easier it is to justify investing \$2.5 Million upfront for the transmission line, payment of the property taxes for all the new infrastructure, and the expenses necessary for maintenance and operation in the newly served area.
- The Big Picture: Support for the gas line project, from the Governor, to the legislators, to Enstar itself is largely dependent upon the City participating. Support could evaporate if the City does not participate. It is part of the "Homer Plan" that the Governor wanted to see. Enstar's continued support for taking the financial risk may disappear without some assurance that there will be a customer base.

***What is the "Core Area". Why focus on that?***

Enstar has requested that the City identify a “core area” in Homer that would be serviced first. The idea was to identify the area that contained the biggest potential gas consumers and the greatest density. This would provide for a quick return on investment for both the City and Enstar and really jump start the extension of the distribution system. The staff took a shot at identifying a core area using some assumptions and basic criteria. A map was provided to Enstar which then engineered and cost estimated a build-out plan. The proposed build-out plan is in your packet. A big map of the draft core area will be on the wall.

There are several questions to be discussed about the core area. First, there is likely to be great discussion about the boundaries and which streets and/or neighborhoods should be in and which should not. Planning, Public Works, Enstar, and the financing institution will all have recommendations about that. The Council will as well. The map can be easily changed and we expect that it will be.

The second big question is whether we should do the entire town at once (or smaller sections one at a time). There are good arguments for that. They include 1) every Homer resident and business gets the benefit right up front or knows they will get it at some point 2) everybody gets it for the same price, 3) there is less administrative burden if you have one big service area or LID instead of lots of little ones that come on line at different times. The advantages of starting with a large core area is that you capture the easy to do stuff first, you see how it goes, and you decide whether to expand later. There is also less risk involved because the City would be borrowing \$ 6 Million instead of \$12 Million or more.

***What are the Financing Mechanisms?***

See Section 2

***What are the Borrowing Options?***

See Section 3

***How Do we Proceed from Here?***

A suggested road map to success is provided in Section 4.

Financing Mechanisms

This section contains three options that are available for financing the gas distribution network. The first two are common methods used by municipalities for financing the extension of utilities. The third is an option based upon programs unique to Homer; the HART and HAWSP programs.

Special Service Districts

A special service district is an area where the City provides a service to a designated part of the City that is not provided to the City at large. A special mil rate is levied on the benefitting properties to pay for the service. In this case, the idea would be that the “core area” would be set up as a special service district and a mil rate levied.



There are advantages and disadvantages to using a special service district in this case. The advantages include the fact that it would be easy to administer and the higher value properties would pay proportionate to the benefit received. The disadvantages include the fact that not everyone would consider it fair if some property owners paid more than others. Tom Klinkner has advised that using property taxes to pay off bonds for infrastructure not owned by the City may be problematic. The biggest disadvantage may be the fact that almost half of the assessed value in the core area, including the biggest potential consumers, is exempt from property taxes. This raises fairness questions. It is unlikely that the City could obtain payment in lieu of tax agreements from all of these properties.

#### Local Improvement Districts

The Council already has experience with local improvement districts. It uses them for the extension of water and sewer service. This is the most common method used for extending utilities and the Borough does this for the extension of gas mains. Under this scenario, the core area would be set up as an LID. Enstar has estimated that the build-out of the core area would cost \$ 6 Million. (please refer to the attachments discussing the free main allowance for the estimated actual costs to the City). There are approximately 2,400 benefitted lots which means that the assessment per lot would be about \$2,500 per lot plus interest and administrative charges.

There are a number of advantages to using an LID. This is a commonly used method and is accepted by financing institutions. According to the Bond Bank and the City attorney, it is particularly well suited here for selling bonds. Another reason is that everybody pays unless the Council chooses to grant exemptions. The primary disadvantage is the fact that a 2,400 lot LID would be a real administrative challenge.

If the Council chooses the LID option, it will have to adopt an ordinance and make decisions about things like exemptions and how the assessment will be applied. I would recommend that the Council initiate the LID itself (HCC 17.04.030 (D)) in order to save time and avoid confusion and unnecessary work both for the City and the property owners.

One idea that I have discussed with both Tom and the Bond Bank is the notion that the City could set up an LID but then defer assessments and pay off the bonds with a dedicated sales tax. Assessments would not have to be paid unless the tax was inadequate to service the loan. Asking the voters if they want to remove the exemption for unprepared foods and dedicate the money to paying off bonds is one idea. The advantages of this are that much of the administrative burden would go away and residents would not have to pay assessments. Under this scenario, it would be good to make it clear when service will be extended to the remainder of the community. A dedicated tax would require a vote.

#### Create a Homer Accelerated Natural Gas Program (HANG).

A program like this would be based upon the model the City has already established with HARP and HAWSP. The City could establish a fund, perhaps with some seed money, and feed it with a dedicated sales tax. The fund could then be used to finance gas main LIDs. This would also require a vote of the people.

The advantages to this approach are that the City could self finance the extension of gas mains and might not have to borrow as much money. It would also provide a recurring source of funds for creating new LIDS. The major downside is that it would delay the build-out and would probably jeopardize the two year core area build-out plan Enstar has talked about.

### Borrowing Options

We have explored a number of borrowing options. The best ones seem to come down to the ones listed below:

#### Special Assessment Bonds

In this case the City would work with a commercial lender who would loan it money for the project. The City would sell special assessment bonds and pledge to make repayment with the property assessment proceeds. This is how it was done in the Mat-Su Borough. The advantages of this approach include the fact that it is a well established procedure and banks are generally more than willing to work with cities on these types of bonds. The disadvantages include the fact that commercial interest rates are likely to be higher, the City's legal costs are likely to be higher, and the City would use its own bond rating, rather than the state, a fact that might drive interest rates higher.

#### Self Financing

The Borough self finances the extension of gas mains into subdivisions. It is able to do this because it has ample reserves and because most of the extension projects are relatively small, like the current one in Anchor Point. In this case, the City does not have the reserves the Borough has and we are talking about extending mains for at least 37 miles of road, the entire downtown core. This is a big project and would require an estimated \$ 6 Million.

The Primary advantage of self financing of course, is that you don't incur debt and pay interest and fees. The downside in this case is that the City would draw its reserves dangerously low and if it only contributed a small amount, like several million, it would really slow things down.

#### Municipal Bond Bank Bonds

A very common method of financing for municipalities is to sell bonds through the Alaska Municipal Bond Bank. The advantages to this approach include a good bond rating, lower administrative and legal costs, and better interest rates. Multiple municipal bond sales are usually grouped together into a large bond sale that is more attractive to investors.

It should be noted that the City cannot sell General Obligation Bonds in this case because G.O. bonds (pledging the full faith and credit of the City) may not be used to finance capital projects that are not owned by the City. Second, these bonds will not be tax exempt municipal bonds for the same reason. They must be taxable bonds which usually mean a higher interest rate.

#### Legislative / Bond Bank Financing



There is precedent for the Legislature to loan money to the Bond Bank which in turn loans it to municipalities to finance capital projects. The State General Fund is invested anyway and there are good arguments for the state to invest in its communities. The advantages to this approach are that the City would avoid the costs of a bond sale and could get a loan at a low interest rate; similar to tax free bonds or even lower. The disadvantage is that this would have to be approved by the Legislature through the capital budget. Therefore, the outcome is uncertain and it might require expending lots of political capital to make it happen. The Council might have to rethink its CIP Priorities and it would certainly want to talk to its delegation before taking any action. In the end, the gain may not be worth the effort.

**RECOMMENDATION:** My recommendation is that the Council 1) participate and finance the extension of the main lines 2) start with the core area with a plan for further expansion 3) choose the LID approach to financing and initiate the LID 4) sell bonds through the Municipal Bond Bank.

### Road Map / the Way Forward

If the Council is in agreement with the preceding recommendation, then a suggested course of action is presented below to make that happen. If Council does not agree, either entirely or in part, then we can develop a new strategy together. Remember, my primary intent here is to frame and focus the discussion.

- February 27: Introduce a resolution expressing the sentiment of the Council re: the proposed tariff
- March 12: Introduce an Ordinance amending Title 13 (Standard Construction Practices) and Title 11.20 (Utility Construction in ROW)
- March 12 Introduce an Ordinance amending Title 17 (Local Improvement Districts)
- March 12 Adopt an Action Plan by Resolution and hold Public Hearing
- March 26 Introduce Resolution initiating Core Area LID
- April 9 If Desired, Introduce Ordinance Establishing Dedicated Tax and Schedule Election
- May 14 Submit Loan Application to Bond Bank
- May 14 Adopt a plan for build-out of remainder of City

### Other Related Topics

1. The proposed tariff; \$1.00 per mcf
2. Support for oil and gas drilling close to Homer



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January 13, 2012

Mr. Walt Wrede, Manager  
City of Homer  
491 East Pioneer Avenue  
Homer, AK 99603

**RE: *City of Homer, Natural Gas Distribution System, Core Area  
Construction Cost Estimate***

Dear Mr. Wrede:

Per your request in November 2011, ENSTAR has completed the design and engineering cost estimate for a natural gas distribution system. This estimate only includes the area defined in your request as the "core area" for the City of Homer and nothing beyond. ENSTAR has proactively completed cost estimates and engineering for the surrounding areas as well and can provide cost information upon request.

According to ENSTAR's engineering plans, the proposed gas distribution system for the core area would require 37 miles of pipeline, estimated at a cost of \$6,110,300.00. If approved and funded, ENSTAR will contract with a complete installation contractor for the construction of this project. Our cost estimate is valid through the construction season of 2013. If approved after 2013, cost adjustments will be made.

This cost estimate provides for the installation of the gas main lines only. All meter sets and service lines connecting to the system will be paid for at time of application by individuals requesting gas service to their business or residence.

Please do not hesitate to call should you need any assistance or have any questions.

Respectfully,

A handwritten signature in black ink, appearing to read "C. Pierce".

Charlie Pierce  
Southern Division Manager

Attachments: Gas Distribution Design Map



**HOMER LID SUMMARY**

January 23, 2012

**Homer LID Costs** \$6,110,342

Footage of 4-inch main, ft 31,770

Footage of 2-inch main, ft 162,090

Total Footage 193,860 feet

**Cost per Foot** \$31.52

Number of Customers 1,388 (a)

Number of Parcels 2,496 (b)

**Cost per Parcel** \$2,448

Estimated Free Main Allowance (FMA) \$1,234,576 (c)

**Estimated Cost per Parcel with FMA applied to total costs** \$1,953

FMA Breakdown by Year

	<u>Yr 1</u>	<u>Yr 2</u>	<u>Yr 3</u>	<u>Yr 4</u>	<u>Yr 5</u>	<u>Yr 6</u>	<u>Yr 7</u>	<u>Yr 8</u>	<u>Yr 9</u>	<u>Yr 10</u>	<u>Total</u>
Homer Core LID	\$585,778	\$320,340	\$187,621	\$38,908	\$77,817	\$12,056	\$12,056	\$	- \$	- \$	- \$1,234,576

Additional meter allowances will be available for each customer based on the estimated annual gas usage during application for the gas service.

(a) ENSTAR projects that 95% of residential dwelling within Homer LID will connect over 7 year period and 100% of commercial customers will connect over 3 year period.

(b) Number of Parcels was identified using Kenai Borough GIS property maps. The boundaries for LID were provided by the City of Homer.

(c) FMA has been calculated using 2011 free main allowances approved by the Regulatory Commission of Alaska and projected gas service connections over first seven years.



**Comparison of Energy Rates: Subject to Energy Price Changel**

Annual cost to provide Heat & Hot Water for a typical single family Home

This comparison is based on using 1200 gallons of fuel oil per year. Adjust numbers proportionally for your consumption.

Energy Costs on 1-15-2012 in Homer City and Kachemak City Alaska

**Residential Rates**

Source	Unit	Average \$ Per Unit	BTU per Unit	AFUE Equipment Efficiency	Net BTU per Unit	Annual Units	CO2 # per Year	Annual Cost	Average Per Month Cost
Electricity	KWH	0.1844524	3,412	100	3,412	38,114	50,978	\$ 7,030	\$ 586
Propane	Gallon	4.79	92,000	82	75,440	1,768	29,929	\$ 8,469	\$ 706
#1 Fuel Oil	Gallon	3.83	135,500	82	111,110	1,200	34,796	\$ 4,596	\$ 383
*For Comparison: Residential Natural Gas Rate Anticipated for Homer City and Kachemak City (Enstar G1 Rate + \$1 per MCF)									
Natural Gas	CCF	1.01578	103,000	82	84,460	1,578	24,868	\$ 1,603	\$ 134

Sales Taxes not included

Each source will vary with market prices.

Electricity & Natural Gas prices include monthly customer charge.

#1 Fuel Oil is Jet A (low sulfur)

Fuels priced at typical delivery quantities

Note: Combustion equipment efficiency can vary widely. A constant 82% efficiency is used to enable a base comparison between fuels and electricity. Many gas and oil fired units function at higher efficiencies.

KWH=Kilowatt Hours

AFUE= Annual Fuel Utilization efficiency

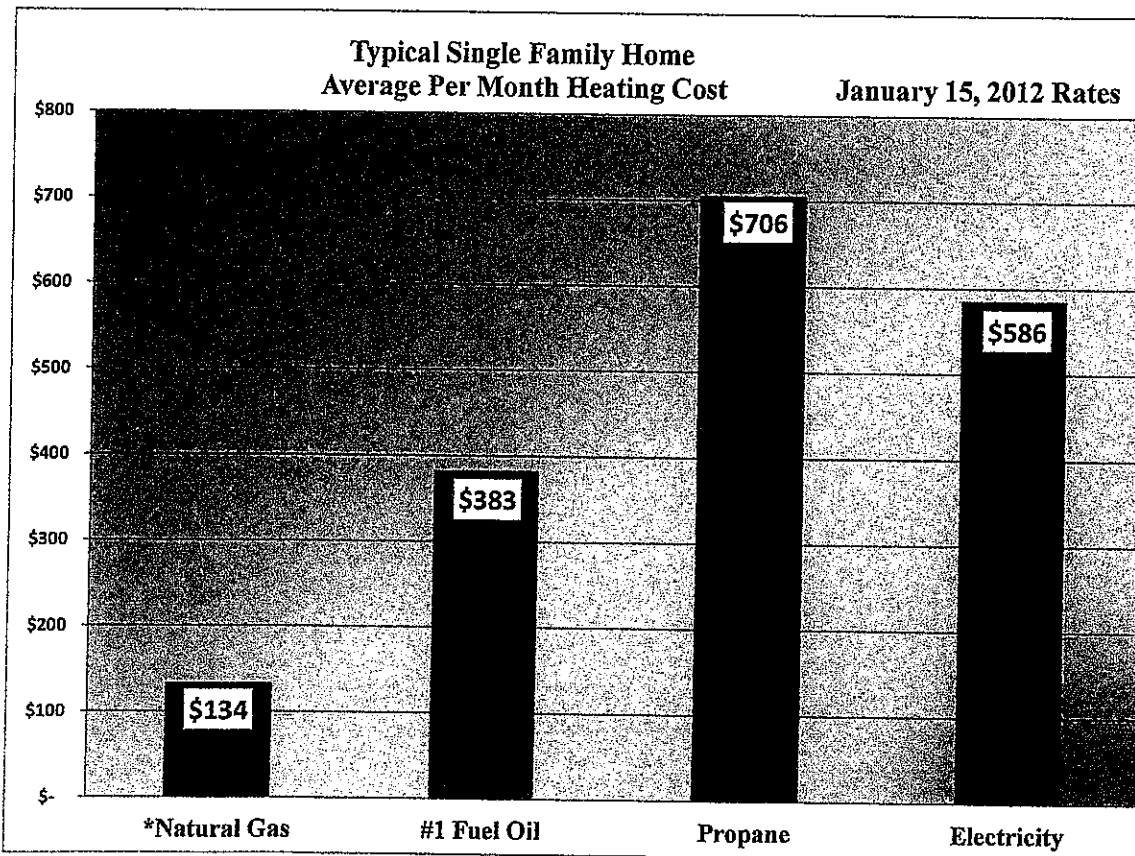
BTU= British Thermal Unit (Amount of heat needed to raise 1 pound of water 1 degree farenheit)

CO2= Carbon dioxide

CCF= Hundred Cubic Feet

This energy cost comparison is also valid for small commercial users

Prepared by Bill Smith



\*For Comparison: Residential Natural Gas Rate Anticipated for Homer City and Kachemak City (Enstar G1 Rate + \$1 per MCF)

# Comparison of Natural Gas and Fuel Oil Costs in Homer Area Public Facilities

Kenai Peninsula Borough Schools Heated with Fuel Oil	Last Delivered Price Per Gallon Fuel Oil	Annual Fuel Use, Gallons	Fuel Oil \$	Natural Gas CCF	Enstar Schedule	Natural Gas \$ Per CCF	Natural Gas \$	Potential Savings per School	% Cost Reduction
Homer Flex	\$ 3.5085	1,048	\$ 3,678	1,353	G1	1.01578	\$ 1,374	\$ 2,304	62.6
Homer High School	\$ 3.4975	74,786	\$ 261,564	99,359	G4	0.99678	\$ 99,039	\$ 162,525	62.1
Homer Middle School	\$ 3.4975	24,027	\$ 84,033	31,921	G3	0.95283	\$ 30,415	\$ 53,618	63.8
Paul Banks Elementary	\$ 3.508	18,435	\$ 64,969	24,492	G3	0.95283	\$ 23,356	\$ 41,332	63.9
West Homer Elementary	\$ 3.508	36,595	\$ 128,374	48,619	G4	0.99678	\$ 48,462	\$ 79,912	62.2
School Maintenance Building	\$ 3.640	2,647	\$ 9,635	3,517	G3	0.95283	\$ 3,351	\$ 6,284	65.2
Potential KPBS School District Annual Savings in the Homer Area									
								\$ 345,976	

City of Homer Facility Heated with Fuel Oil	Last Delivered Price Per Gallon Fuel Oil	Annual Fuel Use, Gallons	Fuel Oil \$	Natural Gas CCF	Enstar Schedule	Natural Gas \$ Per CCF	Natural Gas \$	Potential Annual Savings	% Cost Reduction
Homer Public Library	\$ 3.66	9,915	\$ 36,289	13,173	G3	0.95283	\$ 12,551	\$ 23,737	65.4
Homer Animal Shelter	\$ 3.66	8,064	\$ 29,514	10,714	G3	0.95283	\$ 10,208	\$ 19,306	65.4
Sewer Treatment Plant	\$ 3.66	7,641	\$ 27,966	10,152	G3	0.95283	\$ 9,673	\$ 18,293	65.4
Homer Airport	\$ 3.66	8,858	\$ 32,420	11,768	G3	0.95283	\$ 11,213	\$ 21,207	65.4
Police Station	\$ 3.66	1,032	\$ 3,777	1,371	G1	1.01578	\$ 1,399	\$ 2,384	63.1
HERC 1, B&G Club, College	\$ 3.66	11,817	\$ 43,250	15,700	G3	0.95283	\$ 14,959	\$ 28,291	65.4
HERC 2, Pub Works	\$ 3.66	2,785	\$ 10,193	3,700	G2	0.97219	\$ 3,597	\$ 6,596	64.7
Public Works Building, Shop	\$ 3.66	2,827	\$ 10,347	3,756	G2	0.97219	\$ 3,651	\$ 6,695	64.7
Harbor Rest Rooms	\$ 3.66	2,348	\$ 8,594	3,119	G1	1.01578	\$ 3,169	\$ 5,425	63.1
Port Maint Bldg	\$ 3.66	1,938	\$ 7,093	2,575	G2	0.97219	\$ 2,503	\$ 4,590	64.7
City of Homer Facility Heated with Electricity	April 22, 2011 KWH Cost	Annual KWH Use	Electric Heat \$						
Public Works Building, Offices	\$ 0.1572	51,600	\$ 8,112	1,677	G3	0.95283	\$ 1,598	\$ 6,514	80.3
City Hall	\$ 0.1572	76,400	\$ 12,010	2,483	G3	0.95283	\$ 2,366	\$ 9,645	80.3
Fire Hall	\$ 0.1572	114,240	\$ 17,969	3,712	G2	0.97219	\$ 3,609	\$ 14,350	79.9
Potential Annual Savings for City of Homer Facilities									
								\$ 167,033	

Other Public Facilities Heated with Fuel Oil	Last Delivered Price Per Gallon Fuel Oil	Annual Fuel Use, Gallons	Fuel Oil \$	Natural Gas CCF	Enstar Schedule	Natural Gas \$ Per CCF	Natural Gas \$	Potential Annual Savings	% Cost Reduction
Islands & Ocean Visitor Center	\$ 4.00	25,392	\$ 101,570	33,736	G3	0.95283	\$ 32,144	\$ 69,425	68.4
KBRR Bunnell shop	\$ 4.00	775	\$ 3,100	1,030	G1	1.01578	\$ 1,046	\$ 2,054	66.3
KBRR Warehouse	\$ 4.00	1,542	\$ 6,168	2,049	G2	0.97219	\$ 1,992	\$ 4,176	67.7
KBRR Bay Ave Lab	\$ 4.00	282	\$ 1,008	335	G1	1.01578	\$ 340	\$ 668	66.3
KBRR Modular Office, Kimak Dr	\$ 4.00	1,717	\$ 6,868	2,281	G1	1.01578	\$ 2,317	\$ 4,551	66.3
UAA KPC Kachemak Bay Bmch	\$ 4.00				G3	0.95283			
ADF&G Office/Shop	\$ 3.64	2,153	\$ 7,837	8,620	G3	0.95283	\$ 8,196	\$ 9,864	65.2
AK State Courthouse	\$ 3.64	4,977	\$ 18,115	20,895	G3	0.95283	\$ 19,817	\$ 23,298	65.2
AK State Office Bldg, Lake St.	\$ 3.64	2,650	\$ 9,601	10,507	G2	0.97219	\$ 10,200	\$ 12,400	64.5
DOT Maintenance, Baycrest	\$ 3.80	3,336	\$ 12,677	4,432	G3	0.95283	\$ 4,223	\$ 8,454	66.7
Kachemak Community Center	\$ 3.99	1,000	\$ 3,990	1,329	G1	1.01578	\$ 1,350	\$ 2,640	66.2
US Post Office	\$ 3.64	1,670	\$ 6,078	2,054	G4	0.99678	\$ 2,000	\$ 3,129	63.6
South Peninsula Hospital	\$ 3.79	141,174	\$ 535,049	187,560	G4	0.99678	\$ 186,956	\$ 348,094	65.1
DOT Airport Facilities (2 of 4)	\$ 3.80	6,958	\$ 26,060	9,111	G3	0.95283	\$ 8,682	\$ 17,379	66.7
Other Public Facilities Annual Savings									
								\$ 519,168	

Annual Savings by Conversion to Natural Gas for above Public Facilities									
								Potential Annual Savings	% Cost Reduction
								\$ 1,032,177	423.211
Blended Natural Gas & Electricity rates include monthly customer charges									
Based on Prices Current on 4/26/2011 with \$1 per MCF added to Enstar Rates.									

# What Does a \$1/mcf Tariff Mean to Homer?

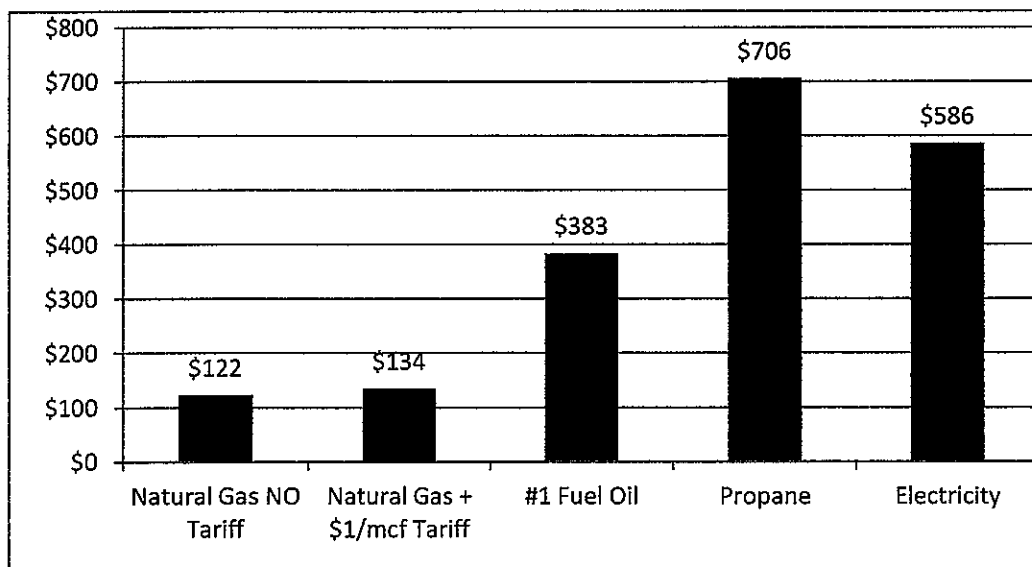
What is a tariff? - The Southern Peninsula is in Estar's service area which means Enstar has to charge us the same rate for natural gas as everyone else in the service area (Kenai Peninsula to Matsu). The tariff is an additional amount used to cover capital construction costs. Southern Peninsula users agree to pay more on their monthly gas bill for 10 years which is predicted to generate \$2.5m. Enstar fronts the \$2.5m to help build the line.

	<b>NO TARIFF</b>	<b>\$1/mcf TARIFF</b>
<b>Capital Request - How Much to ask the Legislature for</b>	\$10.55 million Total to bring main extension from AP to K-City.	\$8.05 million \$2.5m paid by tariff over 10 yrs. Enstar Fronts the \$2.5m.
<b>Perception</b>	Southern Peninsula Residents have no 'skin in the game.'	The Southern Peninsula is helping fund our energy needs.
<b>Monthly Cost to Heat Typical Home/ Small Business*</b>	\$122	\$134
<b>Savings Over Fuel Oil for Typical Home/ Small Business</b>	68%	65%

\* Typical Home/ Small Business Fuel Oil Usage Assumption: 1200 gallons/year.

## Typical Home/Small Business Average Monthly Heating Cost

Jan. 15, 2012 Rates



Prepared by City Manager's Office with Data from Bill Smith 1-23-12



