

**MANAGERS REPORT**  
**April 23, 2012**

**TO:** MAYOR HORNADAY / HOMER CITY COUNCIL

**FROM:** WALT WREDE

UPDATES / FOLLOW-UP

**NATURAL GAS UPDATE**

This Legislative capital budget this year once again contains funding for construction of a natural gas transmission line from Anchor Point to Homer. As some of you know, it was a wild and bumpy ride getting there, to say the least. The Legislative grant funding will come to the City of Homer and the amount is \$8.15 Million. Combined with the \$2.5 Million local match, (raised through the \$1.00 per mcf tariff increase), this will be enough to construct the project.

We are optimistic that the Governor will not veto this line item again. I say that for several reasons. First, he has stated in a letter to the Mayor, in a press interview, and in other conversations, that he was pleased with Homer's willingness to contribute to the cost of the transmission line and its progress in planning for the distribution system. Second, he has stated that he is unlikely to veto many projects, if any this year, because the Legislature stayed within the agreed upon budget caps. So, hold on Homer. It looks like getting natural gas to the area is much closer than it ever has been before. If the Governor does not veto this item, construction work could start as early as this fall.

Now is the time to really focus on whether the City Council wants to participate and provide financing for the local distribution system. Anchor Point and Kachemak City have already decided to do so. The Borough has established a 200 plus lot LID in Anchor Point and there is discussion about more.

We have talked about this issue in workshops and last year a special committee discussed the topic but did not make specific recommendations. Council has adopted several ordinances that put the City into position to accept gas utility line construction and to finance construction if it chooses. The next big decision, and it is becoming increasingly urgent, is if and how the Council will provide financial assistance to its businesses and residences so that they can hook up quickly. If the Council decides to move ahead with an LID or other financing strategy, the goal would be to have it approved and in place by this fall so that cost estimates will be locked in place and Enstar can make construction plans for the 2013 construction season.

Attached is a copy of a memorandum that I prepared for the workshop we had back in February. Since that time, there have been a number of new developments. They include:

- Enstar has provided cost estimates for three separate build-out scenarios. One is for the “core area”, one for the entire City limits, and one for the core area plus a loop that includes West Hill Road, Skyline Drive, and East Hill Road.
- The City Attorney has determined that lots which front the main transmission line being financed by the State cannot be included in an LID. This is important because there are many such lots and the street main construction costs will be borne by the other properties in the LID. This will drive up the cost per lot from prior estimates.
- The Legislature adopted SB 25. This bill allows AIDEA to provide direct loans for gas pipeline construction and it may provide an alternative source of low interest loans for the distribution system, potentially saving lots of money in bond closing costs and interest payments.
- The Economic Development Commission recently adopted a motion recommending that the Council finance construction of the distribution system using an LID and that the LID encompass the entire town.

Suggested Course of Action:

Step 1. Workshop: The first thing the Council must decide is whether it wants to provide financing for construction of the distribution system. If the answer is yes, then the next question is how. For example, it could simply make LIDs available to any area that wants to petition for them. Or, it could initiate an LID on its own that encompassed the core area or the entire town (or some other variation). There is a lot of information that would need to be considered in making this decision (maps, cost estimates, amortization schedules, etc.). That is why I suggest a workshop first, so that the Council can have as much information available to it as possible before making decisions. This workshop should be widely advertised and perhaps a public hearing might be added to the regular meeting agenda.

Step 2. Initiate an LID under HCC 17.04.040. There are advantages to the Council initiating an LID rather than waiting for individual neighborhoods to get organized. If the Council adopted a resolution initiating an LID under HCC 17.04.040, it would set in motion a whole chain of events including community meetings, development of a specific improvement plan, public hearings, more votes by the Council and so on. The ordinance would be followed from that point on.

I look forward to discussing this issue during the Manager’s Report and perhaps during the Committee of the Whole, if there is time.

ATTACHMENTS

1. February 6 Memorandum
2. Ordinance 12-15