

NOTICE OF MEETING
REGULAR 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 December 13, 2010
6. VISITORS
 - A. John Sims and Charlie Pierce, Enstar Natural Gas Co.
7. STAFF/COUNCIL/BOROUGH/KACHEMAK CITY REPORT
8. PUBLIC HEARING
10. NEW BUSINESS
 - A. Financing options
11. INFORMATIONAL MATERIALS
12. COMMENTS OF THE AUDIENCE
13. COMMENTS OF THE CITY STAFF
14. COMMENTS OF THE COUNCIL MEMBER
15. COMMENTS OF THE CHAIR
16. COMMENTS OF THE COMMISSION MEMBERS
17. ADJOURNMENT/NEXT MEETING DAY AND TIME

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Next meeting is scheduled for January 24, 2011 in the Homer City Hall Cowles Council Chambers located at 491 E. Pioneer Avenue, Homer, Alaska.

Session 10-01, a Regular Meeting of the Natural Gas Distribution Task Force was called to order by Acting Chair Heimbuch at 12:00 p.m. on December 13, 2010 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

Linda Filer, Anchor Point resident, commented that she has done a lot of research on oil and gas and it is nice to have gas except for the fact that fracking has destroyed a lot of people's lives all over the United States. We are trying desperately not to allow fracking in the Anchor Point area and it is unfortunate that the company that was hired to take over for the gas has not respected peoples lives in the Anchor Point area as we speak. She knows a woman who bought a \$200,000 house and they put the building for the oil and gas right up against her house and pushed up the berm in between them and they told her it is so if it blows she won't get hurt. Ms. Filer said when they set fire to the top of the towers in the lower 48 people have complained of dizziness, migraines for weeks, and other side effects. This is going on in the Anchor Point area and the company said they won't be burning off the tops of the tower over the Christmas vacation. She called and said if it is going to mean that people are going to be breathing noxious gasses then we have to be able to write something in the paper not to invite friends and family with cancer, asthma, pregnant, newborns, or elderly, and they said they would look into it. She thinks it would be nice if Homer would stand up for the people of the area and try to make sure we aren't injured in any way.

Acting Chair Heimbuch asked Ms. Filer if she had a specific comment on today's agenda as the time for general audience comments will be at the end of the meeting. Ms. Filer responded her understanding was that she could speak at the beginning. She had no further comments.

RECONSIDERATION

No reconsiderations were scheduled.

APPROVAL OF MINUTES

There was no synopsis to approve.

VISITORS

No visitors were scheduled.

STAFF AND COUNCIL REPORT

City Manger Wrede advised he had no formal staff report to present.

PUBLIC HEARING

No public hearings were scheduled.

PENDING BUSINESS

No pending business items were scheduled.

NEW BUSINESS

A. Selection of Chair and Vice-Chair

Acting Chair Heimbuch opened the floor for nomination of Chair for the Task Force.

HOWARD/ZAK NOMINATED MR. HEIMBUCH AS CHAIR.

There was no objection expressed and Mr. Heimbuch accepted the role of Chair.

Chair Heimbuch opened the floor for nominations for Vice Chair.

PATE/STORY NOMINATED MRS. HOWARD AS VICE CHAIR.

There was no objection expressed and Mrs. Howard accepted the role of Vice Chair.

B. Tasks and timeline (work schedule)

City Manager Wrede opened the discussion by thanking the Task Force members for volunteering to do this work. He recognized audience members Mayor Morris and Kachemak City Councilmember David Weber, and explained that Kachemak City has an interest in this and will help lobby when we reach that point. City Manager Wrede noted the resolution that outlines charge of the group and the array of staff that can be available to the group. He added that there may be the need for ordinance amendments to bring the City's utility ordinance up to speed. Staff will bring those proposed amendments to the Task Force for review. He also provided an overview of the events that have resulted in the first phase of development to the Chapman School in Anchor Point.

Specific to the task of the group City Manager Wrede expressed the following points:

- The City will lobby the Legislature for funding to build the main transmission line that will go from Anchor Point into Homer.
- The initial thought is to get the major institutions first: the hospital, the four schools, the new Pratt building, the new college building, and the city buildings along Pioneer.
- Enstar does not finance the trunks into neighborhoods. They offer that service at an established rate to property owners.
- The Task Force needs to look at options financing.
- The Task Force will act as sounding board for Enstar's build out plan.

NATURAL GAS DISTRIBUTION TASK FORCE
MEETING SYNOPSIS
DECEMBER 13, 2010

- Enstar will take responsibility for doing market studies and provide costs to get mainlines up the roads, costs for service lines into neighborhoods, and costs to convert systems to natural gas.
- The Task Force can hold public hearings at their meetings, and the City Council will be holding them as well.

Discussion ensued in a question and answer format. Question was raised if a plan to take a bond to the public would be adequate to show intent to the legislature. City Manager Wrede responded that he thinks it will be adequate to show intent to the legislature that there is initiative to move forward and planning is happening should the funding becomes available.

When asked if Council is 100% on board and if there are other negatives they should be aware of, Mr. Zak commented that he is aware of one member who is reluctant due to concerns of what will happen with costs in the future. He thinks 100% agreement could be reached through discussion. Publicly he is unaware of any specific concerns.

Regarding time line and deliverables, City Manager Wrede thinks that the timeline is flexible. It would be good to get something to the Legislature by February or March showing that the City is complying with their requests and the Task Force is working on plan. He doesn't think they have to have a firm recommendation to Council that quickly.

Chair Heimbuch asked whether working directly with Enstar on this will cause issue. City Manager Wrede explained that Legislature intended this for Enstar as they wanted an expansion of the existing gas distribution system. We are in Enstar's service area so trying to change the provider would entail a complicated process starting with going to the RCA to try to get out of their service area and bring another provider in. That could result in a source of gas that is not guaranteed at the North Fork as well as various other unknowns. Enstar has a postage stamp rate, which means Homer would be guaranteed the same rates as Anchorage, Mat-Su, and everyone else. Enstar plans to have a presence at the meetings. They will own the system when it is done so they will want to do it in a way that makes the most sense for them from a business perspective.

There was discussion of financing options. One is the amending the existing LID process used for water and sewer, a process that has to be initiated by a petition to the City. Another would be build out parts of town resulting in smaller LIDs. A fall back position is to do nothing but support main line into town and support hooking up to the main institutions. If a neighborhood wants to hook up they can work with Enstar, but it is expensive and may take longer. Mr. Story raised a point that a study was done several years ago regarding electric service and what was viable in the City at that time was the core system of service recipients. There is no way to build out miles and miles of line for a few customers along the way. Enstar would likely do it if the cities involved were willing to pay the costs, but there is no way a lot of the consumers of Homer City limits would have access to a line because of the cost to get to these areas. City Manager Wrede added that in discussion with Enstar they are looking at a blanket wetlands permit rather than individual ones for neighborhoods. They estimate that there are 109 miles of road in Homer that could have main lines to serve subdivisions and estimates a 6 to 10 year build out to do it. Mr. Wrede noted that Homer City Code allows for establishing Special Service Districts and that could be an option to tax areas as the service becomes available to them.

NATURAL GAS DISTRIBUTION TASK FORCE
MEETING SYNOPSIS
DECEMBER 13, 2010

The Task Force briefly discussed a meeting schedule and agreed to meet on the 2nd and 4th Monday of the month until completion of their business.

Chair Heimbuch asked for feedback from the Borough and Kachemak City residents.

Assembly Member Mako Haggerty commented that one task for the group would be to find out what Enstar thinks of running a consumer line off the line going to the hospital to cover that neighborhood and find out what those costs would be. Knowing what to expect with the line coming in would be a sales point. The other thing is what the timeline is for taking it to Kachemak City and how far they plan to go.

Assembly Member Bill Smith commented that this is on the School Districts capital projects wish list and it will be on the Borough Assembly's as well. One thing to note is that a legislative grant doesn't necessarily have to go through the City of Homer. It could be administered by the Borough. There is a great public benefit to getting the larger institutions converted. He doesn't know that we need to go past that to have a sales job with the Legislature. A unified front would help tremendously. The hesitations of the City to accept funding have been perhaps well founded but also frustrating. If grant went to Borough then the City won't have to have it all flushed out.

Kachemak City Council Representative David Weber commented that he has worked in the heating industry for 20 years, 15 with the Borough servicing the schools. He can't emphasize how important it is to get everybody in one big push, with both residential and commercial. This will be a substantial savings for the institutions and the homeowners. Getting natural gas to every community where it is feasible is probably the biggest thing we can do for the State of Alaska. Natural gas is clean and cost effective and easily 98% efficient. He commented that areas outside are moving forward with natural gas and we are finally realizing that this is our only way out of dependence on foreign oil. He said he will be attending the Task Force meetings on behalf of Kachemak City.

For the next agenda City Manager Wrede said he will provide a list of different financing options, pros and cons, and ordinance changes.

Chair Heimbuch encouraged members to contact staff with specific questions or lines of inquiry directed to Enstar. Mr. Story requested an estimated cost build out, whether it is from the City gate to Lake Street or to Paul Banks. Mr. Zak asked to include the maximum number of users that could be connected to a low pressure line. Mr. Pate is interested in coming to some kind of understanding how the various areas are going to be financed. Chair Heimbuch wants to know how far along the plan of distribution is going to have to be for the Legislature to buy off on it; and if there is a way to get language or an attitude from the State on what they think we are going to need to do. He doesn't think the State is willing give us a lot of money for very little promise.

INFORMATIONAL MATERIALS

- A. City of Homer Resolution 10-75 establishing task force
- B. Appropriations language, Alaska State Legislature
- C. Existing contracts between City of Homer and Enstar Natural Gas Co.
- D. Potential sources of financing - initial brainstorm list
- E. Utility ordinances from Kenai and Soldotna

COMMENTS OF THE AUDIENCE

Mr. Weber suggested they group invite Representative Seaton's aide to attend the meetings. He has been a great help to Kachemak City.

Mayor Morris commented that the Kachemak City Council is on board with this 100%. They think it is very important to both communities and they are doing what they can to support it. They intend to have a vote of the people in Kachemak at some point. They were told by Enstar that they are looking at approximately \$100,000 per mile for a distribution line, \$22 a foot for the stuff in the street. Their cost of approximately \$700,000 and believe they have found an interest free loan through HEA and USDA. They will secure money or bond it and then use a 1 mil increase for an estimated 10 year payout. He understands that it will be an 8" line, low pressure, and there is ample capacity for growth in the foreseeable future in Homer and out East Road. He urged the City to move on this as their community is ready to go. They will support Homer and the Legislature for what ever they can do.

COMMENTS OF THE CITY STAFF

COMMENTS OF THE CHAIR

There were no additional comments from staff or the Chair.

COMMENTS OF THE TASK FORCE

Mrs. Howard encourage that it be clarified how they are going to proceed to allow the other parties to participate and at what level they will be doing it. It needs to be very clear how this valuable information will be incorporated in their deliberations.

Chair Heimbuch expressed that the point is well taken and the Clerk will work with us to ensure that we don't waste our time or the public's time and there is clarity about who participates at what level.

Mr. Pate commented for clarification that the information that is discussed is public information unless meeting in executive session.

Mr. Zak commented that the agenda could include discussing a seat for the Kachemak City resident. Chair Heimbuch asked that it be included on the next agenda. Mrs. Howard noted that it would have to go to Council for approval.

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 10, 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 *W. Wrede*
From: Anne Marie Holen, Special Projects Coordinator *amb*
Date: January 4, 2011
Subject: Investigation of Financing Mechanisms

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 | <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 | <ul style="list-style-type: none"> • Would require voter approval • General obligation means the City will do whatever is necessary to repay the loan |