



City of Homer

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Finance Department

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Memorandum 21-035

TO: Mayor Castner and Homer City Council
THROUGH: Rob Dumouchel, City Manager
FROM: Elizabeth Walton, Finance Director
DATE: February 17, 2021
SUBJECT: Natural Gas Line Loan Early Payoff

The purpose of this memo is to provide Council with additional information regarding the Natural Gas Line loan with the Kenai Peninsula Borough (KPB).

Loan Background:

The original amount of the natural gas loan with KPB is \$12,359,388 and the current terms are as follows: eight payments (including 4% interest) beginning in September 2016 and ending in September 2024.

The Finance Department contacted KPB last week and requested an early payoff amount. The payoff amount provided as of 3/12/21 is \$2,511,190.83.

Advantages of Payoff:

The primary advantage of paying off the natural gas loan early is the savings in interest payments over the remaining term of the loan. The payment due in September 2021 is \$581,451 and of that \$100,707 represents interest. By paying the loan in full in March 2021 the City would save \$49,486 in interest in 2021 alone.

Funding Availability:

There is a dedicated bank account that contains the full amount of the Free Main Allowance (FMA) received. As of the January 2021 allocation, the balance of this account is just shy of \$1,972,000. This full amount would be available to pay off the loan. The natural gas assessment revenue expected to be received in 2021, will fill the remaining funding gap.

Recommendation:

Approve the Ordinance allowing for the early payoff of the Natural Gas Line loan with the Kenai Peninsula Borough.