



City and Borough of Sitka

100 Lincoln Street • Sitka, Alaska 99835

TO: Mayor McAdams and Assembly Members

THROUGH: Jim Dinley, Administrator

FROM: David Wolff, Finance Director

DATE: August 3, 2010

SUBJECT: Resolution No. 2010-20 Electric Revenue Bonds

The Resolution No. 2010-20, when passed, will place on the ballot an advisory question as to whether the City and Borough of Sitka should issue \$50M in revenue bonds for the first phase of the Blue Lake Project. After discussions with the Executive Director of the Alaska Municipal Bond Bank Authority, it would be in the City's best interest to have the backing of the citizens when we present the application for Revenue Bonds to the board members of the Alaska Municipal Bond Bank Authority for their approval. Legislation was passed this last spring to allow the Alaska Municipal Bond Bank Authority to issue revenue bonds for hydro projects.

The \$50M in bond proceeds will be used to defease the 1992 revenue bonds, refund the 1997 revenue bonds and provide current funding for the Blue Lake Project. When we defease bonds, a trust account is set up to make the future payments of that bond series. The City's 1992 revenue bonds can not be paid early due to how they were structured when the bonds were issued back in 1992. Therefore approximately \$13.9M of the \$50M will be set aside in a trust account to make the scheduled payments over the next five (5) years.

The 1997 revenue bonds will be refunded during this transaction, which means we are refinancing the bonds to a lower interest rate. At this time the bonds have an interest rate of 5.125% to 5.375%. By refunding these bonds, the interest rate will be below 4.0%. The outstanding amount of the 1997 revenue bonds is \$15,190,000.

The final amount of the \$50M bond issue will be used for the Blue Lake Project – adding a third turbine and raising the dam height, approximately \$20M. Part of the \$20M bonds will be classified as Recovery Zone Bonds. The City has been allocated \$2,709,000 Recovery Zone Bonds – these bonds are taxable bonds, with the Internal Revenue Service refunding a percentage of the interest that is paid on them. In effect, the Recovery Zone Bonds will have a net 3% interest rate based on the latest information available. Also since the different municipalities/boroughs within the State of Alaska were each

allocated a specific sum of Recovery Zone Bonds that need to be issued by December 31, 2010, some of the municipality/boroughs will not be using their allocation and the Alaska Municipal Bond Bank Authority can reallocate those bonds to other locations within the State. The City is in line to receive additional Recovery Zone Bonds which will reduce the overall cost to pay the debt service on this issue.

When the revenue bonds are issued, the debt service will be approximately \$900,000 less than what the Electric Fund pays currently. Our current debt service is approximately \$4.1 million per year for the 1992 and 1997 Revenue Bonds. The projected debt service at this time for the \$50M revenue bonds will be approximately \$3.2 million. This savings can be used to add additional dollars to go toward the project and will reduce the amount of bonds that will be needed to finish this project in 3 to 4 years.

The City's challenge is to inform the citizens of the advantages of this bond issue, so they will support the project and the bonding of this project when we apply to the Alaska Municipal Bond Bank Authority for the \$50M in revenue bonds.