

## **POSSIBLE MOTION**

**I MOVE TO** approve Resolution 2014-01 on  
first and final reading.



## Memorandum

January 22, 2014

To: Mark Gorman, Municipal Administrator  
From: Jay Sweeney, Finance Director  
Christopher Brewton, Utility Director  
Subject: **Alaska Energy Authority (AEA) - Power Project Fund Application**

We request Assembly approval of Resolution 2014-01, authorizing the Municipal Administrator to apply for a low interest loan under the AEA Power Project Fund to fund completion of the Blue Lake Expansion Project.

It is becoming increasingly evident that a grant to fully fund the final portion of the Blue Lake project is optimistic at best. While we have authority to issue municipal bonds to finance the remainder of the project, we are pursuing every possible funding opportunity to minimize electric rate impacts for our community. This is a parallel path financing effort; however, there is risk that the municipal bond rate may increase during the period we seek the loan. There are several hurdles to cross as we pursue this path with two considerable caveats;

1. The loan must be subordinate to existing bonded indebtedness,
2. The Legislature must approve the project and appropriate funds.

The AEA Power Project Fund is authorized under AS42.45.010 and offers several benefits over conventional financing:

- The loan will not require the 1.25% rate covenant required by bonding,
- The term of the loan could be 50 years,
- Repayment of the loan may be deferred until the project is completed,
- The expected interest rate is equal to the average weekly yield of municipal bonds for the 12-months preceding the date of the loan, however; the statutory minimum interest rate is 0%.

We believe pursuing this loan application stands a better chance of Legislative support and funding than a direct grant, although we will retain our legislative request for grant funding. City staff has met with AEA and received confirmation that AEA would support our application.

Federal funding opportunities are virtually nonexistent. According to the House Appropriations Committee, the recent \$1.1 trillion budget includes \$10.2 billion for energy programs within the Department of Energy, with only \$17.3 million available for conventional hydroelectric!

With Assembly approval we will complete and file the application as soon as possible and begin an active effort to gain Legislative support and funding.

CITY AND BOROUGH OF SITKA

RESOLUTION NO. 2014-01

A RESOLUTION OF THE CITY AND BOROUGH OF SITKA, ALASKA AUTHORIZING A LOAN APPLICATION TO THE ALASKA ENERGY AUTHORITY POWER PROJECT FUND FOR FUNDING CONSTRUCTION OF THE BLUE LAKE HYDROELECTRIC EXPANSION PROJECT

WHEREAS, the lack of hydroelectric generation capacity limits economic development opportunities for the community of Sitka; and,

WHEREAS, the development of hydroelectric projects is inherently capital intensive and difficult for small communities to finance alone; and,

WHEREAS, completion of the financing and construction of the Project will validate a State-wide model for the development of renewable energy resources; and,

WHEREAS, the City and Borough of Sitka has increased consumer electric rates by an average of 30% to fund the project; and,

WHEREAS, approval of a reasonable low-interest loan would reduce the significant rate increases necessary to complete project funding through issuance of municipal bonds; and,

WHEREAS, Sitka’s economic future and its ability to provide reasonable cost renewable energy for the community is contingent on the completion of the Blue Lake Expansion Project.

NOW THEREFORE BE IT RESOLVED, by the Assembly of the City and Borough of Sitka that Sitka is committed to a partnership with the State to provide innovative funding for developing its renewable energy resources; and,

BE IT FURTHER RESOLVED, that the Administrator is authorized to apply to the Alaska Energy Authority Power Project Fund to finalize funding for construction of the Blue Lake Hydroelectric Expansion Project on terms consistent with the obligations of the City and Borough on the bonds it has already issued for the project.

PASSED, APPROVED, AND ADOPTED by the Assembly of the City and Borough of Sitka, Alaska on this 28th day of January, 2014.

Mim McConnell, Mayor

ATTEST: Sara Peterson, CMC Acting Municipal Clerk