




CITY AND BOROUGH OF SITKA

A COAST GUARD CITY

MEMORANDUM

To: Mayor Eisenbeisz and Assembly Members

Thru: John Leach, Municipal Administrator 

From: Melissa Haley, Finance Director
Scott Elder, Electric Utility Director

Date: February 8, 2022

Subject: Resolution to Authorize USDA Loan for Green Lake Rehabilitation Project

Background

In early 2020 City and Borough of Sitka staff began the process of applying for a loan under the USDA Rural Utilities Service (RUS) program. Originally, we anticipated borrowing \$3 million for phase one of the Green Lake rehabilitation (loan funds cover only construction costs). Later, when interest rates dropped significantly, we proposed borrowing up to \$4 million and presented the project. The borrowing was proposed to and approved by the assembly as part of the FY21 budget process. In the meantime, in order to keep the project on track, the Assembly approved the appropriation of an additional \$1.3 million to be able to move forward with the project, knowing that if the USDA loan was approved, any amount that it covered would be available for other projects or a subsequent stage of the Green Lake rehabilitation project and if the loan did not move forward, those funds would be spent.

The COVID 19 pandemic greatly slowed the application process, as normally a USDA RUS representative travels to walk the team through the complicated application process. Our application was approved in July of 2021. Further complicating all aspects of the process is that USDA RUS is clearly unfamiliar with working with municipalities and with stand-alone energy grids that are not shared. For example, it took many different conversations and with various USDA RUS staff to explain that we do not sell power to other utilities because we are not connected to any other utilities. Once the application was approved review of the contractual documents was very slow—in this case largely because USDA RUS has very little experience with municipalities. In some cases, the language in the contracts required commitments that are inappropriate for a municipality, such as the ability to set rates in the event that certain ratios are not met. These issues have been addressed to the satisfaction of the Municipal Attorney, but it took until December 2022 to finalize.

Finally, when the assembly approved borrowing up to \$4 million, USDA RUS interest rates were 1.9%. Staff believed that this rate was locked in at or near this rate, but recently learned that, in fact, the interest rate is whatever the rate is at the time of drawdown. Currently that rate is 3.54%.

Analysis

There are pros and cons associated with moving forward with borrowing through the USDA RUS loan program.

Pros:

1. Moving forward would free up working capital in the fund. We do not yet have good sense of the pipeline of the most urgent repairs needed, though phase 2 and 3 of the Green Lake rehab project are high on the risk matrix. Using the estimated \$3 million that would be eligible to cover completed work would free up the fund's working capital to prioritize this work without having as much impact on the fund's working capital levels.
2. As construction on this first phase is completed, it would be exempt from all federal procurement restrictions, such as Build America, Buy America (BABA).
3. The USDA RUS program could be a source of funding for future Electric Fund projects at a rate lower than we would get by issuing revenue bonds through the Alaska Municipal Bond Bank. As described by USDA RUS representatives, the process would not be as onerous as this original process.

Cons:

1. Future use of the program would require all federal provisions including BABA, which would likely make the projects significantly more expensive, offsetting some or all of the savings from lower interest rates (as compared to bonding through the bond bank). While when a project is largely grant funded, the added expense and complexity associated with complying with all federal provisions is generally worthwhile, it is harder to justify when the funding must be paid back.
2. There will be significant financial reporting burdens for the utility for as long as there is a loan in repayment. It is possible that some of these requirements may be waived, though we do not have this confirmed. As the requirements are written, the reporting would likely require either additional higher-level staffing or would have to be contracted out.

Fiscal Note

When the approval to borrow \$4 million at 1.9% was made the estimated interest expense over 30 years would have been approximately \$1.3 million, at the 3.54% rate, that cost increases to \$2.5 million over 30 years—nearly double projections at the lower rate.

The largest financial impact is on the near-term working capital of the fund and how

quickly other needed capital investments can be made. At the end of FY22 there was approximately \$14.7 million in working capital (of which \$2.8 million was appropriated for capital projects). If we do borrow for the completed phase 1 project, we would likely be able to complete both phase 2 and 3 in the FY24-FY27 time frame. If we don't borrow, we will likely need to delay phase 3 in order to save or push off other investments. Additionally, freeing up unrestricted working capital could provide grant match monies for future capital improvement projects.

Given the expense of the fund's assets, eventually the fund will have to debt-fund projects. At this point we do not have enough data on condition of and scope of the fund's assets to determine when this will be.

Recommendation

Recommend that the Assembly consider the pros and cons of proceeding with the USDA RUS loan and direct staff accordingly by a vote on the accompanying Resolution.

CITY AND BOROUGH OF SITKA

RESOLUTION NO. 2023-05

A RESOLUTION OF THE CITY AND BOROUGH OF SITKA (CBS) AUTHORIZING THE EXECUTION OF A LOAN AGREEMENT WITH FEDERAL FINANCING BANK, GUARANTEED BY THE UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE, IN THE PRINCIPAL AMOUNT OF \$4,000,000, TO FINANCE CERTAIN PREVIOUSLY CONSTRUCTED SYSTEM EXTENSIONS AND ADDITIONS TO THE ELECTRIC DISTRIBUTION SYSTEM AND FACILITIES OF THE CBS; AUTHORIZING THE APPROPRIATE OFFICERS OF THE CBS TO EXECUTE THE APPROPRIATE DOCUMENTS FOR THE LOAN AND THE GUARANTEE; AND, PROVIDING FOR OTHER MATTERS PROPERLY RELATING THERETO

WHEREAS, the City and Borough of Sitka (“CBS”) is a home rule municipality organized and operating under the laws of the State of Alaska;

WHEREAS, the CBS has made improvements to its electric distribution system and facilities (“System”), including system extensions and additions, known as the Green Lake Phase I project (hereinafter referred to as the “Project”); and

WHEREAS, the CBS Assembly is authorized and empowered by Section 11.08 of the Home Rule Charter of the City and Borough of Sitka to adopt a Budget and Capital Improvement Plan for the Electric Fund, including entering debt obligations secured by revenue of the System for the purpose of financing certain improvements to the System; and

WHEREAS, by Ordinance No. 2020-18, passed on May 12, 2020 (the “Ordinance”), the CBS Assembly adopted a Budget and Capital Improvement Plan, including certain capital improvements to the System, as described more fully in the Ordinance, and authorized entering debt obligations in a principal amount not to exceed \$4,000,000 for the purpose of paying the costs of the Project; and

WHEREAS, by letter to the CBS dated July 1, 2021, attached hereto as Exhibit “A” and incorporated herein by reference, the United States Department of Agriculture, Rural Utilities Services (RUS), made an offer to guarantee a loan of \$4,000,000 from the Federal Financing Bank (FFB) to the CBS (the “A18 Loan”), under the terms and conditions set forth in that certain Note Purchase Commitment and Servicing Agreement, dated January 1, 1992, as amended, between RUS and FFB (the “Loan Offer”), to finance the Project, and attached hereto as Exhibit “B” and incorporated herein by reference; and

WHEREAS, by this Resolution the CBS Assembly accepts the Loan Offer; and

WHEREAS, to finalize the terms of the A18 Loan and authorize the payment of funds for the Project costs, RUS and FFB will require CBS to execute certain loan contracts, notes, guarantee contracts, and related documents all as described in Exhibits A and B (the “Documents”) and to return the Documents to RUS and FFB on a date set forth in the letter transmitting the Documents to CBS; and

51 **WHEREAS**, as condition of the A18 Loan, RUS requires CBS to act by duly authorizing the
52 appropriate official of CBS to execute and deliver to RUS the Documents, including the RUS
53 Loan Contract, and FFB Note and Reimbursement Note.
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55 **NOW, THEREFORE, BE IT RESOLVED** by the Assembly of the City and Borough of Sitka as
56 follows:
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58 Section 1: Incorporation of Recitals. The recitals as set forth in this Resolution are
59 hereby incorporated by this reference as though fully set forth in the body of this Resolution.
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61 Section 2: Ratification and Approval of A18 Loan. The CBS Assembly hereby
62 ratifies, approves, and authorizes the acceptance of the A18 Loan for the purposes set forth in
63 the Ordinance and Exhibits A and B for a term of 30 years at variable interest rates as set by
64 RUS and FFB as of the date of any advances on the A18 Loan. Payments of principal and
65 interest of the A18 Loan shall be as set forth in the Documents.
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67 Section 3: Authorization to Execute Documents. Upon approval of the form of
68 documents by the CBS Assembly and legal counsel for CBS, the CBS Assembly hereby
69 authorizes the CBS Administrator and Finance Director to execute the Documents and all other
70 documents necessary to finalize the A18 Loan on behalf of CBS, as contemplated by the terms
71 and requirements set forth in Exhibits A and B, and the RUS FFB guaranteed loan project. The
72 CBS Administrator and Finance Director and all other appropriate officers of CBS are each
73 hereby further authorized and directed to take such steps, to do such other acts and things, and
74 execute such letters, certificates, agreements, papers, financing statements, assignments or
75 instruments as in their judgment may be necessary, appropriate or desirable in order to carry
76 out the terms and provisions of, and complete the transactions contemplated by, this
77 Resolution.
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79 Section 4: Pledge of Electric System Revenues. For so long as the A18 Loan
80 remains outstanding and unpaid, CBS hereby irrevocably obligates and binds itself to pay all
81 interest or principal and interest payments due on the A18 Loan from System revenues, and to
82 make all such payments as are due over the life of the A18 Loan. The CBS Finance Director is
83 hereby authorized and directed to establish and maintain such accounts and funds necessary to
84 provide for the prompt payment to FFB of interest on, and principal of, the A18 Loan, all
85 according to the Documents executed on behalf of the CBS. CBS hereby irrevocably obligates
86 and binds itself to pay all amounts due, including any interest and/or penalties, to RUS from
87 System revenues, in accordance with the Documents executed on behalf of CBS.
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89 Section 5: Severability. If any one or more of the covenants or agreements provided
90 in this Resolution to be performed on the part of CBS shall be declared by any court of
91 competent jurisdiction to be contrary to law, then such covenant or covenants, agreement or
92 agreements shall be null and void and shall be deemed separable from the remaining
93 covenants and agreements in this Resolution and shall in no way affect the validity of the other
94 provisions of this Resolution and the Documents.
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96 Section 6: Ratification. All actions (not inconsistent with the provisions of this
97 Resolution) heretofore taken by CBS with respect to the Project and the Documents are hereby
98 in all respect ratified, approved, and confirmed.
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100 Section 7: Effective Date. This Resolution will become effective immediately upon its
101 adoption.

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103 **PASSED, APPROVED AND ADOPTED** by the Assembly of the City and Borough of Sitka,
104 Alaska on this 14th day of February, 2023.

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Steven Eisenbeisz, Mayor

109 ATTEST:

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Sara Peterson, MMC

114 Municipal Clerk

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116 1st and final reading: 2/14/23

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118 Sponsor: Administrator

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