

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
Ron Vinson, Electric Utility Director

Date: February 5, 2025

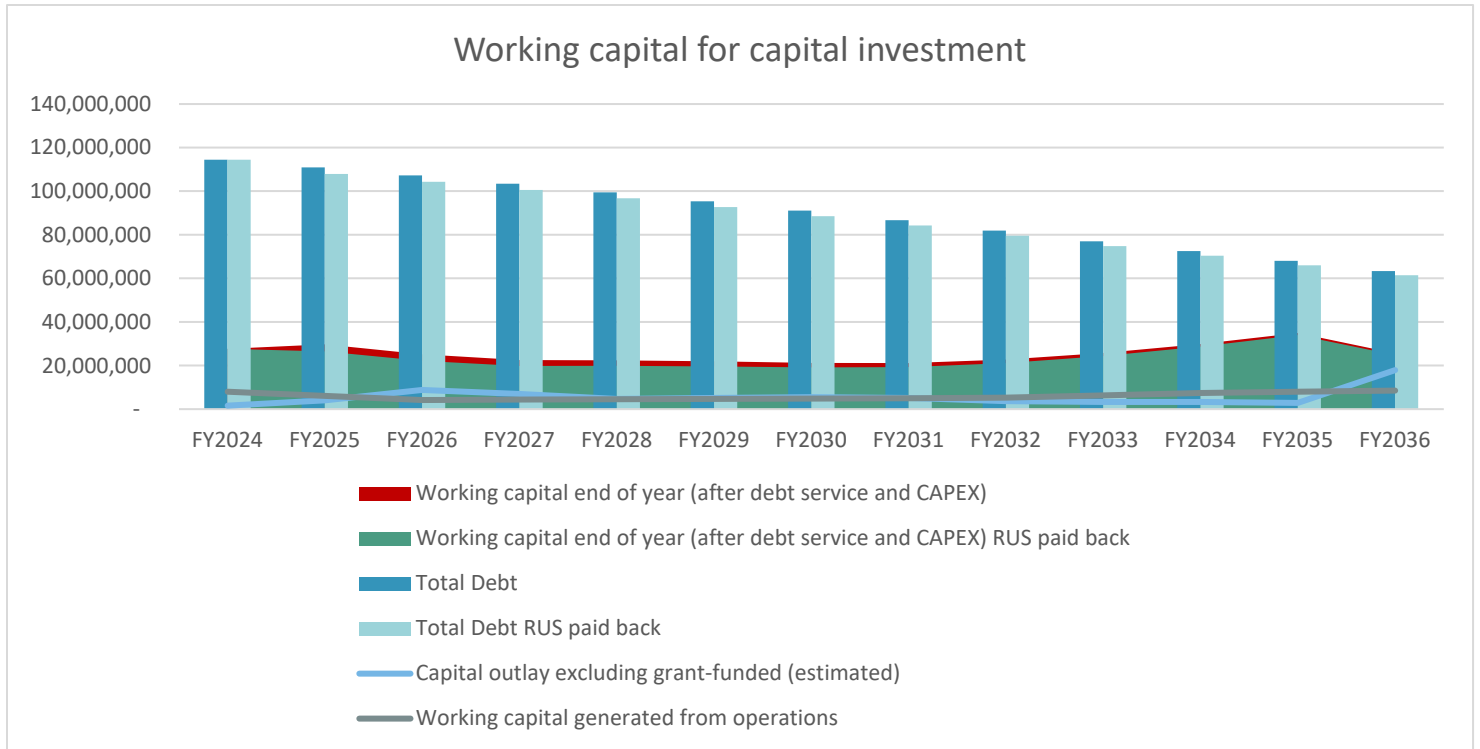
Subject: Payback USDA RUS loan

Background

Staff began working to secure the USDA RUS loan to fund Phase I of the Green Lake hydroelectric rehabilitation project in February of 2020, when the programs loan rates were under 2%. Due to a very slow process and delays on the part of USDA (in large part because the USDA was not used to working with municipalities or islanded grids), the loan was not approved until FY2024, with loan proceeds of \$3,066,045 being disbursed in October of 2023 with total rates and fees of 5.004%. During the process of finalizing the paperwork, the CBS expressed concerns about the burden the contract language would put on both the Finance and Electric departments. The CBS received assurances that the program was working to ease some of these burdens, however when communications were followed up this fall, the USDA was unwilling to make any changes to the reporting requirements. The first significant report, which we do not have the time or resources to complete, would be due at the end of March. In addition, during the last 2 years, the municipality has received \$3 million in hydroelectric incentive payments, providing greater financial flexibility.

Analysis

Over the next 10 years, projections show that the Electric Fund working capital levels would be fully restored by FY2036. This analysis also does not take into account an expected grant of approximately \$2.9M that while not yet awarded, has been publicly announced and is in the negotiation stage.



In addition, given the contractual reporting and operating requirements, it is highly likely that both the Finance and Electric departments would have to request significant additional resources, likely in form of FTE's to meet the requirements, creating additional future expense.

Fiscal Note

The first principal payment on the loan is due June 30th of this year, so no principal payments have been made. There is also a prepayment fee that would be calculated at the time notice is given that the loan will be prepaid. Given current interest rates, we do not expect this to be significant, however, the calculation is made by the Secretary of Treasury and depends on where interest rates are. For this reason, we have assumed an extra \$200,000, into the request, for a total of \$3,266,945.

In addition to the previously outlined reasoning for repaying this debt; this repayment will act in a positive way to reduce the overall debt that the fund currently carries.

Recommendation

Approve the early repayment of the USDA RUS loan.

CITY AND BOROUGH OF SITKA

ORDINANCE NO. 2025-04
AN ORDINANCE OF THE CITY AND BOROUGH OF SITKA MAKING SUPPLEMENTAL
APPROPRIATIONS FOR FISCAL YEAR 2025
(Electric Fund repayment of USDA RUS loan)

BE IT ENACTED by the Assembly of the City and Borough of Sitka, Alaska as follows:

1. CLASSIFICATION. This ordinance is not of a permanent nature and is not intended to be a part of the Sitka General Code of the City and Borough of Sitka, Alaska.

2. SEVERABILITY. If any provision of this ordinance or any application thereof to any person or circumstance is held invalid, the remainder of this ordinance and application thereof to any person and circumstances shall not be affected thereby.

3. PURPOSE. The purpose of this ordinance is to make a supplemental Operations appropriation for FY2025.

4. ENACTMENT. In accordance with Section 11.10 (a) of the Charter of the City and Borough of Sitka, Alaska, the Assembly hereby makes the following supplemental appropriation for the budget period beginning July 1, 2024 and ending June 30, 2025.

Table with 2 columns and 4 rows. Row 1: FISCAL YEAR 2025 EXPENDITURE BUDGETS. Row 2: GENERAL FUND. Row 3: Electric Department – Debt Payments: Increase appropriations in the amount of \$3,266,945 to repay the principal balance of the loan and any fees related to the prepayment of the USDA RUS loan. Row 4: (Empty)

EXPLANATION

Early repayment of the USDA RUS loan with a balance of \$3,066,945 has been deemed to be in the best interest of the municipality. Upon notification to the agency of the intent to repay the loan, a fee for repayment of the loan will be calculated by the agency.

5. EFFECTIVE DATE. This ordinance shall become effective on the day after the date of its passage.

PASSED, APPROVED, AND ADOPTED by the Assembly of the City and Borough of Sitka, Alaska this 25th day of February 2025.

ATTEST:

Steven Eisenbeisz, Mayor

Sara Peterson, MMC
Municipal Clerk

1st reading: 2/11/25
2nd and final reading: 2/25/25

Sponsor: Administrator