

Memo

Thru: Michael Harmon, Acting Municipal Administrator
To: City and Borough of Sitka Assembly
From: Jay Sweeney, Finance Director
Date: 12/5/2012
Re: Electric Revenue Bond Ordinance

The attached revenue bond ordinance, for the issuance of electric revenue bonds, is the key document in the bonding process. Its passage is absolutely necessary and essential to the successful accomplishment of our planned bonding in March of this year.

The bond ordinance has been prepared by the City and Borough's Bond Counsel, David Thompson of K&L Gates LLP, in conjunction with careful review by the Bond Counsel for the Alaska Municipal Bond Bank, Cynthia Cartledge of Wohlforth, Brecht, Cartledge and Brooking, and by the Bond Bank's financial advisor.

The executive team has reviewed this ordinance and our suggestions have been incorporated to the extent possible. In addition, Alan Dashen of A. Dashen and Associates, the Financial Advisor engaged by the Municipality on this project, has also reviewed and contributed to the document.

To review the bonding process in summary, the City and Borough of Sitka intends to issue one (1) revenue bond to the Alaska Municipal Bond Bank, in an amount not to exceed \$45,000,000, as collateral for a loan from the Bond Bank to be used to fund a portion of Sitka's share of the Blue Lake Dam Hydroelectric Project. This ordinance permits the City and Borough to issue its revenue bond and enter into the loan agreement. The Alaska Municipal Bond Bank, in turn, will issue its own bonds to the public, which will be sold through an underwriting syndicate, with RBC Capital as the lead underwriter. Thus, no bonds from the City and Borough of Sitka will be sold to the general public. The exact amount of the Sitka bond issued to the Bond Bank will be determined when the Bond Bank sells its bonds.

A key provision the Assembly will be agreeing to, in passing this ordinance, is Section 10 a, which reads:

Rate Covenant. The City will establish, maintain and collect rates and charges for service of the Electric System for so long as the Bond is outstanding that will provide in any fiscal year hereafter Net Revenue, taking into account transfers from the Rate Stabilization Account in accordance with Section 7(c), in an amount equal to at least 125% of the Debt Service required to be paid in that fiscal year on the outstanding 2010 Bonds and Parity Bonds.

This means that the Assembly is agreeing to raise rates, as necessary, throughout the life of this bond issue to ensure that the rate covenant is met. Rate covenants like this are typical in revenue bond

transactions and are designed to protect bondholders and the issuer from any potential shortfall in revenue needed to pay debt service on the bonds. Past Assemblies have agreed to this very same provision, as it would be not feasible for our community to bond without such a provision.

Upon approval of this ordinance by the Assembly, the Bond Bank will sell its bonds and finalize the Sitka loan amount and loan agreement. Bond Counsel will proceed to prepare the myriad of additional documents necessary for signing at the time the bond is issued and loan agreement entered into. Again, Mr. Thompson is leading this process as our Bond Counsel. We anticipate bond closing to on or around March 15 in Seattle, at which time the Municipality will receive the proceeds of the bond issue.

As was described earlier to the Assembly, the Sitka portion of the bonds issued by the Alaska Municipal Bond Bank will not begin to mature until 2031, after Sitka's 2010 revenue bonds completely mature. Essentially, the 2013 bonds will be "interest only" until 2031. The purpose for doing this is to keep the required amount of electricity rate increases required by the rate covenant above to a minimum, since the rate covenant is based upon annual debt service. Deferring principal repayment lowers the rate Covenant.

It is also important to remember that this bond issue is the first of two, or perhaps three, issuances required to complete the Blue Lake Hydroelectric project. The amount of this issuance was determined based upon the amount of funding required to finance construction through the summer of 2013. This allows to project to continue without delay while, at the same time, affording additional time for securing, if possible, additional State of Alaska assistance in the project. The amount and timing of the subsequent follow-on issues will be dependent on our success in securing additional assistance.

This document will be followed by one other significant document at a future Assembly meeting. This is an electricity rate increase ordinance to be introduced on first reading at the January 22, 2013 Assembly meeting. As has been mentioned several times within the recent past, additional electricity rate increases will be required in order to bond for the amount necessary to complete the Blue Lake Dam project. The ultimate amount of such rate increases is dependent upon legislative action. The first rate increase, however, necessary for the issuance of this bond, must be passed by the Assembly before March 15 bonding, even though the effective date may be in July. Action in passing a rate increase before bonding is absolutely critical and necessary to the bonding process and can't be deferred until later.

In summary, this document represents the culmination of hundreds of hours of work on the part of multiple individuals. It carries the recommendation of staff, and its external professional advisors, for approval.