

POSSIBLE MOTION

I MOVE TO approve Resolution 2018-16 on
first and final reading.



City and Borough of Sitka

100 Lincoln Street • Sitka, Alaska 99835

MEMORANDUM

To: Mayor Hunter and Assembly Members
Keith Brady, Municipal Administrator

From: Jay Sweeney, Chief Finance and Administrative Officer

Date: 7/18/2018

Subject: Application for Harbor Revenue Bonds and Associated Resolution

Background

In previous communications to the Assembly, as well as in the FY2019 Consolidated Operating Budget, Staff has identified a need to issue additional harbor revenue bonds to finance the reconstruction of Crescent Harbor.

The first phase of Crescent Harbor was completed by the State of Alaska in 1965, with additional floats added in 1966, 1969, and 1970. Major repairs to finger floats were completed in 2002 and an electrical upgrade was completed in 2005. As is the case with other older municipal harbors, ownership of Crescent Harbor was transferred from the State of Alaska to the Municipality in an as-is state, without provision for repair or renovation.

The physical condition of Crescent Harbor has deteriorated to the point where in-house repairs are no longer sufficient to adequately maintain the facility. Harbor Department staff and Public Works Department engineers have determined that the harbor now presents an operational and safety risk due to floats sinking, decay of wooden beams, corrosion of metal fixtures, and failure of walk-down ramps to meet ADA accessibility requirements.

The Municipality plans to reconstruct Crescent Harbor in two phases: Phase 1 will entail the replacement of wooden floats 1, 2, 3, and 4 and the two walk-down ramps. Phase 2 will entail the reconstruction of the remainder of the Harbor (the concrete floats).

Fiscal Note

The current estimated cost of Phase 1 of renovating Crescent Harbor is \$14,025,000. Of this amount, the State of Alaska has awarded a Municipal Harbor Matching Grant to the Municipality in the amount of \$5,000,000. The remaining \$9,025,000 of the amount is planned to be provided through a combination of \$8,025,000 in harbor revenue bond proceeds, and the use of Harbor Fund working capital in the amount of \$1,000,000 (which has already been appropriated). It is important to note that the Municipal Harbor Matching Grant must be expended by December 31, 2019 (an 18-month period).

As of March 31, 2018, the Harbor Fund had total working capital of \$7,168,904 and undesignated working capital of \$4,975,583, with the remaining \$2,193,321 previously appropriated for capital purposes and unspent, and, in a modest repair reserve of \$324,307. Thus, Harbor Fund working capital is insufficient to provide the amount necessary to pay for the Municipal portion of the project, even if every available dollar was put towards the project. Bonding proceeds are necessary if reconstruction is going to occur within the time period for the Municipal Harbor Matching Grant.

The Municipal staff has also prepared a comprehensive fiscal model for the Harbor Fund, which was presented to the Assembly during the Fiscal Year 2019 budget process. The fiscal model represents the financial plan for the Harbor Fund. The fiscal model provides for the issuance of harbor revenue bonds to provide all but \$1,000,000 of the required municipal proceeds for the project. Recommended moorage rates and planned future capital improvements, including the reconstruction of other Municipal harbors, are predicated on the fiscal model. Substantial deviation from the financial plan for the harbor system, by changing the financing plan for Crescent Harbor, will affect all future capital improvement funding plans.

Please note that, to save on duplication and printing costs, some of the attachments which will be included with the signed application, such as the Consolidated Operating Budget and the CAFR, have not been included in your packets. All of the required supplemental information requested on the bond application can be found in these two official documents. In addition, the aforementioned Harbor Fund fiscal model can be found on the Municipal website, as it is too large to effectively print on paper.

Analysis

Per the Charter of the City and Borough of Sitka, an election is not required to approve the issuance of revenue bonds.

If the Assembly approves the accompanying Resolution staff will proceed to submit an Application to the AMBBA to issue harbor revenue bonds. Neither submission of the application, nor possible approval by the AMBBA, will bind the Assembly and Municipality to firmly issuing harbor revenue bonds. Approval of an additional ordinance will be required before the Municipality firmly commits to bonding.

The sequence of bond issuance events which would follow approval of the accompanying Resolution would be as follows:

- (1) The Municipality submits the attached bonding application and accompanying Resolution to the AMBBA;
- (2) The AMBBA approves or disapproves the application;
- (3) If the application is approved, both the AMBBA and the Municipality begin legal and administrative work to draft bonding documents. The legal work for the Municipality will be completed by its outside Bond Counsel. The key document produced by outside bond counsel is a bonding ordinance. The key document produced by the AMBBA's bond counsel in conjunction with the Municipality's bond counsel is a loan agreement from the AMBBA.
- (4) The bonding ordinance is considered and approved/disapproved by the Assembly. A key provision of the bonding ordinance is permission/authority of the Municipality to enter into a loan agreement with the AMBBA which is secured by the issuance of a

revenue bond to the AMBBA (as security). If the Assembly does not pass the ordinance, the entire bonding process stops.

- (5) If the Assembly passes the ordinance, outside bond counsel prepares multiple legal documents and certificates necessary to complete the bonding. The Municipal Clerk also prepares and certifies documents, obtains necessary signatures, and transmits original documents to the outside bond counsel.
- (6) While legal documents are being prepared, the AMBBA works with an underwriter (a major investment bank in New York City) to sell its bond issue to the public. Sitka's bonding needs will be combined with other Alaskan Municipalities to comprise an overall AMBBA general obligation bond issuance. The proceeds from AMBBA's bond issuance are what are loaned to Sitka, through the aforementioned loan agreement, which is secured by Sitka's single revenue bond. Actual underwriting takes place over a 2-day period in New York; this is the event which legally binds Sitka to bonding. The pricing of the bonds, and determination of any issuance discounts and premiums, occurs at this underwriting event.
- (7) The bond issuance culminates in a bond closing, in Seattle, approximately 2-3 weeks after underwriting. At closing, bond counsel for the AMBBA, and, the various bond counsels for all of the participating Alaskan communities (of which Sitka would be one), all ensure that every required legal document is signed, sealed, and acceptable. Once all bond counsels affirm that everything is ready, the underwriting investment bank wires bonding proceeds to the various banks used by all of the participating communities.

Once bond closing has taken place, the Municipality will be legally committed to making pre-determined, semi-annual interest and principal payments to a trustee bank, usually the Bank of New York. The role of the Bank of New York is to consolidate all of the semi-annual payments from various participating Alaskan communities and use the payments to make interest and principal payments to AMBBA general obligation bonds. Sitka does not ever sell its own separate bonds to the general public; its interest and principal payments are part of its loan agreement to the AMBBA and are necessary for the AMBBA to make its own over-arching debt service payments. This is how a bond bank works.

Finally, the ultimate amount of bond proceeds that will be obtained, and, the final total of bond principal and interest that will need to be repaid, will not be precisely determined until underwriting occurs. When bonds are underwritten and sold by an investment bank, they are issued at either a premium, par, or a discount. Par means that an issuer gets proceeds exactly equal to the principal amount issued. A discount or premium occurs when the market rate of interest differs from the stated rate of interest on a bond; depending on interest rate differences, a borrower may get a greater amount of proceeds (a premium) or smaller amount of proceeds (a discount) than the premium amount issued. If discounted proceeds are received, it is because the borrower is paying a lower rate of interest than that in the financial market as a whole; vice, versa, a premium occurs when a borrower is paying a higher rate of interest. The expertise role of the underwriter is determining what stated interest rates on bonds, premiums, and discounts are required to sell the issuance to the public.

Recommendation

Staff is recommending the Assembly approve a Resolution to submit an application to the Alaska Municipal Bond Bank Authority to issue a harbor revenue bonds in the amount of \$8,025,000.

CITY AND BOROUGH OF SITKA

RESOLUTION NO. 2018-16

A RESOLUTION BY THE CITY AND BOROUGH OF SITKA APPROVING SUBMITTAL AND EXECUTION OF AN APPLICATION TO THE ALASKA MUNICIPAL BOND BANK TO ISSUE AN AMOUNT OF HARBOR REVENUE BONDS IN THE AMOUNT OF \$8,025,000 THROUGH THE BOND BANK TO FINANCE THE CITY AND BOROUGH OF SITKA'S PORTION OF PHASE 1 OF THE RECONSTRUCTION OF CRESCENT HARBOR

- WHEREAS,** the City and Borough of Sitka has recognized that the physical condition of Crescent Harbor has deteriorated to the point where in-house repairs are no longer sufficient to adequately maintain the facility; and
- WHEREAS,** the City and Borough of Sitka recognizes that Crescent Harbor is essential to vibrant commercial and sport fishing industries which are, in turn, vital to the overall economy of Sitka; and
- WHEREAS,** keeping Crescent Harbor functional will be best accomplished by reconstruction of the harbor in two phases; and
- WHEREAS,** the projected overall cost of Phase 1 of Crescent Harbor reconstruction is estimated to cost \$14,025,000; and
- WHEREAS,** the City and Borough of Sitka applied for, and has been awarded, a Municipal Harbor Matching Grant by the State of Alaska for the reconstruction of Crescent Harbor in the amount of \$5,000,000; and
- WHEREAS,** the Municipal Harbor Matching Grant must be utilized within 18 months, and, insufficient working capital exists to provide the required match within the time period for the grant; and
- WHEREAS,** issuing revenue bonds is the most efficient and effective option for raising the proceeds necessary to pay for the Municipality's portion of the project.

NOW, THEREFORE, BE IT RESOLVED by the Assembly of the City and Borough of Sitka that the Administrator is authorized to prepare and submit an application to the Alaska Municipal Bond Bank for the issuance of up to \$8,025,000 in harbor revenue bonds through the Alaska Municipal Bond Bank Authority.

PASSED, APPROVED, AND ADOPTED by the Assembly of the City and Borough of Sitka, Alaska on this 24th day of July, 2018.

Matthew Hunter, Mayor

ATTEST:

Sara Peterson, MMC
Municipal Clerk

1st and final reading 7/24/18
Sponsor: Administrator