

Memo

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

The attached revenue bond ordinance, for the issuance of harbor moorage 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 also reviewed this ordinance and our suggestions have been incorporated to the extent possible.

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 \$4,600,000, as collateral for a loan from the Bond Bank to be used to fund a portion of Sitka's share of the ANB Harbor Replacement 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 moorage fees and other rates and charges for the use of the Harbor Facilities for so long as the Bond is outstanding that will provide in any fiscal year hereafter Net Revenue, taking into account (A) transfers from the Rate Stabilization Account in accordance with Section 8(c) and (B) any Fish Tax Receipts or other City funds deposited in the Harbor Enterprise Fund and available to pay debt service on Parity Bonds, in an amount equal to at least 125% of the Debt Service required to be paid in that fiscal year on the outstanding Parity Bonds.

This means that the Assembly is agreeing to raise moorage 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 in regards to electric revenue bonds, 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.

We anticipate the bond structure for this issue will be semi-annual payments of interest along with one annual principal redemption, structured in such a fashion as to make the annual debt service amounts roughly equal.

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.