<u>POSSIBLE MOTION</u>

I MOVE TO approve Ordinance 2018-46
on second 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: September 5, 2018

Subject: Harbor Revenue Bond and Airport Terminal Revenue Bond Ordinance

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Executive Summary

The purpose of ordinances 2018-45 (harbor revenue bonds) and 2018-46 (airport terminal revenue bonds) is to enter into bonded debt obligations in order to finance phase 1 of the Municipality's share of the reconstruction of Crescent Harbor, and, the renovation of the Sitka Rocky Gutierrez Airport Terminal.

Background and Discussion

The attached revenue bond ordinances, for the issuance of harbor and airport terminal revenue bonds, are the key documents in the bonding process. Their passage is absolutely necessary and essential to the successful accomplishment of our planned bonding in fiscal year 2019.

Per Section 12.01 of the Home Rule Charter of the City and Borough of Sitka (the Charter), Borrowing Authority, "*The Municipality may borrow money and issue such evidence thereof (herein called obligations) as the Assembly may determine necessary*".

As the proposed debt obligations to be issued by the Municipality for harbors and the airport terminal are to be repaid through revenues of such enterprises and are not a general obligation of the Municipality, a public vote approving the obligations is not required by the Charter.

The bond ordinances have been prepared by the City and Borough's Bond Counsel, David Thompson of Stradling, Yocca, Carlson & Rauth PC, of Seattle, in conjunction with careful review by the Bond Counsel for the Alaska Municipal Bond Bank Authority (AMBBA) and by the Bond Bank's financial advisor. The Municipal staff have also carefully 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) harbor revenue bond to the AMBBA, in an amount not to exceed $8,600,000, as collateral for a loan from the Bond Bank to be used to fund a portion of Sitka's share of the Crescent Harbor Renovation Phase 1 project; and, one (1) airport terminal revenue bond to the AMBBA, in an amount not to exceed $4,500,000, as collateral for a loan from the AMBBA to be used to fund renovation of the Sitka Rocky Gutierrez Airport Terminal. These ordinances permit the City and Borough to issue its revenue bonds and enter into the loan agreements. The AMBBA, 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 directly to the general public. The debt service of the Municipality will be structured in such a way as to mirror the debt service of the AMBBA, thus providing the AMBBA with the funding for its bonds used to finance the loans to the Municipality.

The exact amount of the Sitka revenue bonds issued to the Bond Bank will be determined when the Bond Bank sells its bonds. As discussed in previous correspondence to the Assembly, bonds are commonly sold at a premium (or less commonly a discount) to their stated face value. The AMBBA's underwriter structures the AMBBA bond issuance in such a way as to best position the issuance for sale to the public. Hence, it is this underwriter's coupon rate recommendations which serve as the underlying basis for bond pricing, and, possible premiums or discounts on issuance.

The face value of the Sitka revenue bonds will include both the amount of project funds previously presented to the Assembly, issuance costs, and a debt service reserve equal to the largest annual debt service on each issuance. Debt service reserves are not outlays or expenditures, but assets of the Municipality and the Municipality earns investment returns on them. Debt service reserves are either released back to the Municipality upon retirement of the bonds, or, may be used to make the last debt service payment on the bonds.

A key provision the Assembly will be agreeing to, in passing this ordinance, is Section 11 a of each ordinance. For the airport terminal ordinance, it reads: "*Rate Covenant. The City will establish, maintain and collect rentals, tariffs, rates, and charges for the lease, license and other rates and charges for use and operations of the Airport Terminal that will produce Net Revenue each year that, together with PFC Revenue, will at least equal [1.25] times the amount required in such year to pay the principal of and interest on all Parity Bonds.*" *For the harbor ordinance, it reads "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 rates, as necessary, throughout the life of these bond issues to ensure that the rate covenants are 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 amounts and loan agreements. 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 be in late November in Seattle, at which time the Municipality will receive the proceeds of the bond issues.

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.

Recommendation
In summary, these ordinances represent the culmination of hundreds of hours of work on the part of multiple individuals. They carry the recommendation of staff, and its external professional advisors, for approval.