




City and Borough of Sitka

100 Lincoln Street • Sitka, Alaska 99835

MEMORANDUM

To: Mayor Paxton and Assembly Members
From: John Leach, Municipal Administrator 
Date: May 21, 2020
Subject: Refinancing of 1979 Alaska Energy Authority Loan

Issue:

The Alaska Municipal Bond Bank Authority (AMBBA) is currently taking steps to refinance a substantial portion of its outstanding publicly held bonds. As the AMBBA uses proceeds from its public bond issuances to loan to Municipalities, those Municipalities are being afforded a chance to work in conjunction with the AMBBA to refinance their loans from the AMBBA.

In conjunction with the refinancing of its outstanding publicly held bonds, the AMBBA is affording municipalities the ability to apply for new loans from the AMBBA which would be funded through the issuance of additional new AMBBA debt.

Accordingly, the City and Borough of Sitka has applied to the AMBBA for a loan to refinance the remaining balance of Sitka's 1979 loan with the Alaska Energy Authority. Passage of an ordinance by the Assembly is required to enter into the loan, and the accompanying ordinance serves this purpose.

Analysis:

Structure of AMBBA Debt and CBS loan agreements with the AMBBA

The AMBBA is a subdivision of the State of Alaska, Department of Revenue. The AMBBA was established to help smaller Municipalities in Alaska access bond markets that would otherwise be unavailable to small bond issuers. The AMBBA has specific statutory authority to issue general obligation bonds.

The basic functioning of the AMBBA is to sell bonds to the general public through underwriters, then lend the proceeds from its debt issuances to Alaska Municipalities

through loan agreements. As collateral for the loans, the AMBBA requires each Municipality to sell one single municipal bond to the AMBBA. The AMBBA then crafts debt repayment schedules for the loans it makes to mirror its own debt service obligations to the public. Thus, debt service payments made by Municipalities are used by the AMBBA to make its own debt service.

The bonds sold to the general public by the AMBBA are callable serial municipal bonds. This means that AMBBA bonds carry different interest coupons, and, mature at those dates specified in the serial structure. Callable means that the AMBBA can pay off the bonds early, but only according to specific rules set forth at the time of issuance. All AMBBA bonds are continuously callable after 10 years; before the 10-year anniversary, they can't be called. AMBBA bonds may be partially called, meaning some bonds in the serial, but not all, are paid off early.

As the proceeds of AMBBA bonds are lent to Municipalities and those Municipalities have repayment schedules that mirror the AMBBA's debt service, the ability of Municipalities to pay off their loans early is limited and may only take place according to stipulations set forth in their loan agreements with the AMBBA.

The calling of bonds and early pay-off of loans can be initiated either by the AMBBA, or, by Municipalities. The AMBBA has a contractual financial advisor who continually monitors interest rates in the bond market, and, who recommends to the AMBBA Executive Director and Board when bonding looks economical. While a municipality can apply to the AMBBA for a loan, municipalities can't compel the AMBBA to issue new public debt.

New Money Refinancing of AEA Loan

The CBS has a long-standing term loan with the Alaska Energy Authority. The loan was entered into in 1979, and, was refinanced in 1993 (in conjunction with a disaster assistance request tied to the APC mill closure) to extend its term to 50 years. The loan terms include semi-annual payments of principal and interest of \$307,037.96 at 4% interest.

Current interest rates lower than 3% make refinancing of this loan an attractive option, wherein it did not make economic sense to do so in the past. Accordingly, the CBS has applied to the AMBBA for additional bonded indebtedness ("new money") to refinance this old loan and reduce interest costs to the rate payers. The AMBBA has analyzed the loan and has agreed that enough savings will be achieved to make refinancing attractive.

In order to take on additional bonded indebtedness to pay off this older loan and achieve lower interest expense, passage of an ordinance is required.

Fiscal Note:

Effective Interest Rates and Savings Not Finalized Until Underwriting

The exact amount of savings and the effective interest rate(s) for the refinancing of the AEA loan cannot be known with certainty until the underwriter takes the bond issuances to market in New York. The underwriter has, however, estimated effective interest rates based on current bond market conditions, as well as a sensitivity analysis showing the effect on the proposed refunding if market interest rates rise or fall.

When a bond issuance is brought to market, the rate of interest to be paid on each bond in the serial is pre-determined well in advance. These rates are called bond coupon rates. Rather than adjusting coupon rates continuously to match ever-changing market conditions, bonds in the various serials in a bond issuance will be sold at either a premium or discount to the stated redemption value.

AMBBA bonds are often sold at a premium. When bonds are sold at a premium, the CBS gets extra bond proceeds it does not have to pay back to offset the higher coupon interest it pays. When this occurs, it results in the effective interest rate on the issuance which, in the case of a premium, will be substantially lower than the stated coupon rates.

Estimated Savings for AEA Loan Refinancing

The savings to be achieved by issuing new electric revenue bonds to refinance the AEA loan has also not been determined with certainty by the underwriter. The CBS Finance Department believes that refinancing the AEA loan could potentially save as much as \$50,000 in annual interest expense.

Effect Refinancing of AEA Loan on User Fees

Although the proposed refinancing of the AEA loan will result in significant interest rate and cash flow savings to the Municipality, staff does not intend to recommend user fee reductions at this time. Savings will instead be used to strengthen the financial health of enterprise funds by increasing their working capital, and, by potentially reducing the amount of future fee increases.

Recommendation

Staff recommends that the Assembly approve the accompanying Ordinance necessary to refinance its outstanding AEA loan.

CITY AND BOROUGH OF SITKA, ALASKA

JUNIOR LIEN ELECTRIC REVENUE REFUNDING BOND (TAXABLE)

(REFINANCING AEA LOAN)

ORDINANCE NO. 2020-30

AN ORDINANCE of the City and Borough of Sitka authorizing the City to obtain a loan from the Alaska Municipal Bond Bank in a principal amount not to exceed \$7,000,000 to refinance for savings the City's outstanding loan from the Alaska Energy Authority; authorizing the issuance to the Bond Bank of a junior lien electric revenue refunding bond of the City to evidence and secure the loan; authorizing the Municipal Administrator and Chief Finance and Administrative Officer to enter into a loan agreement with the Bond Bank setting forth the terms and conditions of the loan and the refunding bond; and establishing an effective date.

PASSED: June 9, 2020

Prepared by:

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Seattle, Washington

CITY AND BOROUGH OF SITKA, ALASKA

ORDINANCE NO. 2020-30

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EXHIBIT A Form of the Bond

EXHIBIT B Form of Bond Bank Loan Agreement

CITY AND BOROUGH OF SITKA

ORDINANCE NO. 2020-30

AN ORDINANCE of the City and Borough of Sitka authorizing the City to obtain a loan from the Alaska Municipal Bond Bank in a principal amount not to exceed \$7,000,000 to refinance for savings the City's outstanding loan from the Alaska Energy Authority; authorizing the issuance to the Bond Bank of a junior lien electric revenue refunding bond of the City to evidence and secure the loan; authorizing the Municipal Administrator and Chief Finance and Administrative Officer to enter into a loan agreement with the Bond Bank setting forth the terms and conditions of the loan and the refunding bond; and establishing an effective date..

WHEREAS, the City and Borough of Sitka, Alaska (the "City"), owns and operates electric generation and transmission facilities (the "Electric System"); and

WHEREAS, to pay a portion of the cost of the City's Green Lake hydroelectric project, a component of the Electric System, the City borrowed \$15,000,000 (at a per annum interest rate of 4.0%) from the Alaska Power Authority (now known as the Alaska Energy Authority, "AEA") under a Loan and Security Agreement dated as of August 24, 1982, as evidenced by a Promissory Note dated August 26, 1982 (as subsequently amended, the "AEA Loan"); and

WHEREAS, in 1994 or 1995, the City and AEA agreed on a restructuring of debt service on the AEA Loan, which is currently payable in approximately equal semiannual installments of principal and interest each January 1 and July 1 with a current outstanding balance of \$6,177,921.70; and

WHEREAS, after due consideration it appears to this Assembly that the City may be able to realize savings to the City and ratepayers of the Electric System by refinancing the AEA Loan from the proceeds of a lower-cost loan from the Alaska Municipal Bond Bank (the "Bond Bank") that would be evidenced and secured by the issuance to the Bond Bank of a junior lien electric revenue refunding bond (the "Bond"), as authorized by this ordinance; and

WHEREAS, there are currently outstanding (as of May 1, 2020) the following electric revenue bonds of the City, all held by the Bond Bank:

Sitka Series	Issue Date	Ordinance	Principal Amount Outstanding	Bond Bank Series
2010 Senior Lien	12/9/2010	2010-29	\$31,500,000	2010 Four
2013 Junior Lien	3/12/2013	2013-02	35,530,000	2013 One
2013(2d) Junior Lien	11/14/2013	2013-38	25,615,000	2013 Three
2014 Junior Lien	10/30/2014	2013-38	16,325,000	2014 Three

WHEREAS, the ordinances that authorized the issuance of the outstanding electric revenue bonds provide that the City may issue additional bonds with a lien on revenue of the Electric System on a parity with the lien on such revenue of the Junior Lien Bonds (as identified above), if certain conditions are met; and

WHEREAS, this Assembly finds that the applicable parity conditions have been or will be met, so the Bond may be issued as a Parity Bond; and

WHEREAS, the Assembly has determined that it is in the best interest of the City to delegate to the Municipal Administrator and the Chief Finance and Administrative Officer authority to enter into a loan with the Bond Bank by issuing the Bond to the Bond Bank, as authorized by this ordinance, so long as the principal amount of the Bond does not exceed \$7,000,000; and

WHEREAS, the Assembly finds that it is in the best interest of the City and ratepayers of the Electric System to issue the Bond through the Bond Bank, on the terms and conditions set forth in this ordinance and in a loan agreement authorized by this ordinance to be entered into with the Bond Bank;

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

Section 1. Classification. This ordinance is not of a permanent nature and is not intended to become part of the Sitka General Code.

Section 2. Definitions. As used in this ordinance, the following words have the following meanings, unless a different meaning clearly appears from the context:

“AEA” means the Alaska Energy Authority (formerly known as the Alaska Power Authority).

“AEA Loan” means the loan to the City in the original amount of \$15,000,000 (at a per annum interest rate of 4.0%) from the Alaska Power Authority (now known as AEA) under a Loan and Security Agreement dated as of August 24, 1982, as evidenced by a Promissory Note dated August 26, 1982, and as subsequently amended.

“Annual Debt Service” means the total amount of Debt Service for any bonds or other evidences of indebtedness payable from Revenue of the System in any fiscal year.

“Assembly” means the Assembly of the City and Borough of Sitka, Alaska, the general legislative authority of the City, as duly constituted from time to time, or any successor body.

“Balloon Maturity Bonds” means any bonds or other evidences of indebtedness of the City payable from Revenue of the System that are so designated in the ordinance pursuant to which such bonds are issued or such indebtedness is incurred.

“Base Period” means any consecutive 12-month period selected by the City out of the 36-month period next preceding the date of issuance of a series of Future Parity Bonds.

“Bond” means the Junior Lien Electric Revenue Refunding Bond, 20__ (Taxable), authorized to be issued in a principal amount not to exceed \$7,000,000 pursuant to this ordinance.

“Bond Bank” means the Alaska Municipal Bond Bank, a public corporation and instrumentality of the State of Alaska, created pursuant to the provisions of Chapter 85, Title 44, Alaska Statutes, as amended.

“Bond Bank Bonds” means bonds to be issued by the Bond Bank to provide funds to be loaned to the City under the Loan Agreement.

“Bond Fund” means the “City and Borough of Sitka 2013 Electric Revenue Bond Redemption Fund,” created pursuant to Ordinance No. 2013-02 and continued by this ordinance to pay and secure the payment of all Parity Bonds.

“Bond Register” means the registration books for the Bond maintained by the Registrar, for the purpose of complying with the requirements of Section 149 of the Code and listing, inter alia, the name and address of the Registered Owner of the Bond.

“Chief Finance and Administrative Officer” means the Chief Finance and Administrative Officer of the City or the successor to the duties of that office.

“City” means the City and Borough of Sitka, Alaska, a home rule municipal corporation duly organized and existing under the Constitution and laws of the State of Alaska and its Charter.

“Code” means the federal Internal Revenue Code of 1986, as amended, together with corresponding and applicable final, temporary or proposed regulations and revenue rulings issued or amended with respect thereto by the United States Treasury Department or the Internal Revenue Service.

“Consultant” means an independent municipal financial consultant, including but not limited to an independent accounting firm or engineer, having a favorable reputation for skill and experience with electric utilities comparable to the Electric System in such matters as are relevant to the purpose for which he or she is retained, appointed from time to time by the City to perform the duties of the Consultant as required by this ordinance.

“Covered Bonds” means the 2013 Bond, the 2013(2d) Bond, the 2014 Bond, the Bond, and any Future Parity Bonds designated in the ordinance authorizing their issuance as Covered Bonds secured by the Reserve Account, subject to the approval of the Bond Bank, as provided in Section 8(b), and the 2010 Bonds, subject to the approval of the Bond Bank, as provided in Section 8(b).

“Debt Service” means, for any period of time,

(a) for outstanding Fixed Rate Bonds, an amount equal to the sum of:

(1) all interest payable on such Fixed Rate Bonds during the period;

(2) the amount of principal of such Fixed Rate Bonds due or subject to mandatory redemption during such period and for which no Sinking Fund Requirement has been established, and

(3) the amount of the Sinking Fund Requirement for the period;

plus

(b) for outstanding Parity Bonds other than Fixed Rate Bonds, including but not limited to Balloon Maturity Bonds and Parity Bonds bearing variable rates of interest, an amount for the period equal to the amount that would have been payable for principal and interest on these Parity Bonds during that period computed on the assumption that the amount of Parity Bonds as of the date of such computation would be amortized (i) in accordance with the mandatory redemption provisions, if any, set forth in the ordinance authorizing the issuance of such Parity Bonds, or if mandatory redemption provisions are not provided, during a period commencing on the date of computation and ending on the date 30 years after the date of issuance (ii) at an interest rate equal to the yield to maturity set forth in the 40-Bond Index published in the edition of *The Bond Buyer* (or comparable publication or such other similar index selected by the City) and published within ten days prior to the date of calculation or, if such calculation is being made in connection with the certificate required by Section 11 hereof, then within ten days of such certificate, (iii) to provide for approximately level annual debt service of principal and interest over such period.

Debt Service shall be net of any capitalized interest funded out of bond proceeds and any Debt Service Offsets.

“Debt Service Offset” means receipts of the City, including but not limited to federal interest subsidy payments, designated as such by the City that are not included in Revenue of the System and are legally available to pay debt service on Parity Bonds.

“Electric System” means the electric utility properties, rights and assets, real and personal, tangible and intangible, now owned and operated by the City and used or useful in the generation, transmission, distribution and sale of electric energy and the business incidental thereto and all properties, rights and assets, real and personal, tangible and intangible, hereafter constructed or acquired by the City as additions, betterments, improvements or extensions to those electric utility properties, rights and assets, but shall not include any other generating, conservation, transmission or distribution facilities that have been or may hereafter be acquired or constructed by the City as a utility system designated by the Assembly at the time of financing thereof to be separate from the Electric System, the revenues of which may be pledged to the payment of bonds issued to purchase, construct or otherwise acquire or expand that separate utility system or are otherwise pledged to the payment of the bonds of another separate utility system of the City other than the Electric System. The Assembly may, by ordinance, elect to combine with and include as a part of the Electric System any other separate utility of the City, provided that full provision for the payment of any outstanding indebtedness of that separate system must first be paid or that indebtedness must be refunded with bonds issued in accordance with this ordinance.

“Event of Default” means any of those events described as such in Section 18 of this ordinance.

“Fitch” means Fitch, Inc., organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such organization is dissolved or liquidated or no longer performs the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency (other than S&P or Moody’s) designated by the Chief Finance and Administrative Officer.

“Fixed Rate Bonds” means those Parity Bonds other than Balloon Maturity Bonds the rates of interest of which are fixed and determinable through their final maturity or for a specified period of time. If so provided in the ordinance authorizing their issuance, Parity Bonds may be deemed to be Fixed Rate Bonds for only a portion of their term.

“Future Parity Bonds” means electric revenue bonds of the City issued after the date of issuance of the Bond that have a lien on Revenue of the System for the payment of the principal thereof and interest thereon equal to the lien on the Revenue of the System for the payment of the principal of and interest on the 2013 Bond, the 2013(2d) Bond, the 2014 Bond, and the Bond.

“Government Obligations” means any bonds or other obligations that, as to principal and interest, constitute direct obligations of, or are unconditionally guaranteed by, the United States of America.

“Loan Agreement” means the Loan Agreement by and between the City and the Bond Bank authorized to be entered into pursuant to Section 17 of this ordinance for the sale of the Bond.

“Moody’s” means Moody’s Investors Service, its successors and their assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency (other than S&P and Fitch) designated by the Chief Finance and Administrative Officer.

“Municipal Administrator” means the Municipal Administrator (or Borough Administrator) or the successor to the duties of that office.

“Net Revenue” means, for any period, Revenue of the System less Operating Expenses for that period, excluding from the computation of Revenue of the System (a) any profit or loss derived from the sale or other disposition, not in the ordinary course of business, of properties, rights or facilities of the Electric System, or resulting from the early extinguishment of debt; and (b) insurance proceeds other than proceeds to replace lost revenue.

“Operating Expenses” mean the City’s expenses for operating and maintaining the Electric System, and ordinary repairs, renewals, replacements and reconstruction of the Electric System, including all costs of delivering electric power and energy, and payments into reasonable reserves in the Revenue Fund for items of operation and maintenance the payment for which is not immediately required, and shall include, without limiting the generality of the foregoing, costs of purchased power; costs of transmission and distribution operation and maintenance expenses; rents; administrative and general expenses; engineering expenses; legal and financial advisory expenses; required payments to pension, retirement, health and hospitalization funds; insurance premiums; and any taxes, assessments, payments in lieu of taxes or other lawful governmental charges, all to the extent properly allocable to the Electric System; and the fees and expenses of the Registrar. Operating Expenses shall not include any costs or expenses for new construction,

interest, amortization, non-cash losses or costs with respect to any real or personal property, investment or agreement that may be required to be recognized under generally accepted accounting principles, including but not limited to depreciation expense and unrealized mark-to-market losses.

“Parity Bonds” mean the 2013 Bond, the 2013(2d) Bond, the 2014 Bond, the Bond, and any Future Parity Bonds.

“Permitted Investments” means any of the following to the extent permitted by the laws of the State of Alaska:

(1) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America, and CATS and TIGRS) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America.

(2) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

- A. Farmers Home Administration: certificates of beneficial ownership;
- B. Federal Financing Bank;
- C. General Services Administration: participation certificates;
- D. Government National Mortgage Association (GNMA): GNMA-guaranteed mortgage-backed bonds and GNMA-guaranteed pass-through obligations;
- E. U.S. Maritime Administration: guaranteed Title XI financing; and
- F. U.S. Department of Housing and Urban Development: project notes; local authority bonds; U.S. government-guaranteed new communities debentures; U.S. government-guaranteed public housing notes and bonds.

(3) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

- A. Federal Home Loan Bank System: senior debt obligations;
- B. Federal Home Loan Mortgage Corporation (FHLMC): participation certificates and senior debt obligations rated AAA by S&P or Aaa by Moody's;
- C. Federal National Mortgage Association (FNMA): mortgage-backed securities and senior debt obligations rated AAA by S&P or Aaa by Moody's;
- D. Student Loan Marketing Association (SLMA): senior debt obligations;
- E. Resolution Funding Corp. (REFCORP): only the interest component of REFCORP strips that have been stripped by request to the Federal Reserve Bank of New York; and
- F. Farm Credit System: consolidated systemwide bonds and notes.

(4) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G, AAAm or AAm or having a rating by Moody's of Aaa, Aa1 or Aa2.

(5) Certificates of deposit secured at all times by collateral described in (1) and/or (2) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated A-1+ or better by S&P and Prime-1 or better by Moody's. The collateral must be held by a third party and Bondowners must have a perfected first security interest in the collateral.

(6) Certificates of deposit, savings accounts, deposit accounts or money market deposits that are fully insured by FDIC, including BIF and SAIF.

(7) Commercial paper rated, at the time of purchase, Prime-1 by Moody's and A-1 or better by S&P.

(8) Bonds or notes issued by any state or municipality rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.

(9) Federal funds or bankers acceptances with a maximum term of one year of any bank that has an unsecured, uninsured and unguaranteed obligation rating of Prime-1 or A3 or better by Moody's and A-1 or A or better.

(10) Repurchase agreements providing for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the City or its agent or trustee (buyer/lender), and the transfer of cash from the City or its agent or trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the City or its agent or trustee in exchange for the securities at a specified date. Repurchase Agreements for a term of 30 days or less must satisfy the following criteria:

A. Repos must be between the City or its agent or trustee and a dealer bank or securities firm.

a. Primary dealers on the Federal Reserve reporting dealer list that fall under the jurisdiction of the SIPC and that are rated A or better by S&P and Moody's, or

b. Banks rated A or above by S&P and Moody's.

B. The written repo contract must include the following:

a. Securities that are acceptable for transfer are:

(1) Direct U.S. governments, or

(2) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC).

b. The term of the repo may be up to 30 days.

- c. The collateral must be delivered to the City (if the City is not supplying the collateral) or to a third party acting as agent for the City (if the City is supplying the collateral) before or simultaneously with payment (perfection by possession of certificated securities).
- d. The securities must be valued weekly, marked-to-market at current market price plus accrued interest. The value of collateral must be equal to 104% of the amount of cash transferred by the City or its agent or trustee to the dealer bank or securities firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

(11) Any other investments approved by the Bond Bank.

“Qualified Insurance” means any non-cancelable municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance companies) which insurance company or companies, as of the time of issuance of such policy or surety bond, are currently rated in one of the two highest Rating Categories by two Rating Agencies.

“Qualified Letter of Credit” means any irrevocable letter of credit issued by a financial institution for the account of the City on behalf of registered owners of the applicable Parity Bonds, which institution maintains an office, agency or branch in the United States and as of the time of issuance of such letter of credit, is currently rated in one of the two highest Rating Categories by any Rating Agency.

“Rate Stabilization Account” means the account of that name within the Revenue Fund.

“Rating Agency” means Moody’s, S&P or Fitch.

“Registrar” means the Chief Finance and Administrative Officer, for the purposes of registering and authenticating the Bond, maintaining the Bond Register, and paying principal of and interest on the Bond.

“Registered Owner” means the person in whose name the Bond is registered on the Bond Register.

“Reserve Account” means the Parity Bond Reserve Account created within the Bond Fund pursuant to Ordinance No. 2012-02 and continued by this ordinance.

“Reserve Requirement” means the amount to be calculated with respect to all Covered Bonds and separately with respect to other Parity Bonds, as follows:

(a) For Covered Bonds, the Reserve Requirement is equal to the least of: (1) maximum Annual Debt Service for Covered Bonds, (2) 10% of the initial principal amount of each series of Covered Bonds, and (3) 125% of average Annual Debt Service for Covered Bonds; provided, however, that the amount required to be contributed, if any, as a result of the issuance of a series of Future Parity Bonds will not be greater than the Tax Maximum. If the amount required to be contributed at the time of issuance of a series exceeds the Tax Maximum, then the amount required to be contributed shall be equal to the Tax Maximum.

(b) For any Parity Bonds that are not designated as Covered Bonds, the Reserve Requirement will be the amount, if any, specified in the ordinance authorizing the issuance of those Parity Bonds.

The amount of the Reserve Requirement may be recalculated from time to time as principal of Parity Bonds is paid or Future Parity Bonds are issued.

“Revenue Fund” means the Electric Utility Revenue Fund heretofore established and maintained in the office of the Chief Finance and Administrative Officer.

“Revenue of the System” means all income and revenue derived by the City from the sale of electric energy and all other commodities, services and facilities sold, furnished or supplied by the City through the ownership or operation of the Electric System, together with the proceeds received by the City directly or indirectly from the sale, lease or other disposition of any of the properties, rights or facilities of the Electric System, any federal interest subsidy payments received in connection with Parity Bonds (to the extent such payments are not designated as Debt Service Offsets), and any investment income earned on money held in any fund or account of the City, including any bond redemption funds and the accounts therein, in connection with the ownership and operation of the Electric System (but excluding income derived from investments irrevocably pledged to the payment of any specific revenue bonds of the City, such as bonds heretofore or hereafter refunded or defeased, investment income earned on money in any arbitrage rebate account, grants for capital purposes, and non-cash marked-to-market gains with respect to any real or personal property, investment or agreement that may be required to be recognized under generally accepted accounting principles).

“Rule” means the SEC’s Rule 15c2-12 under the Securities Exchange Act of 1934.

“SEC” means the United States Securities and Exchange Commission.

“S&P” means Standard & Poor’s Ratings Services, its successors and their assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency (other than Moody’s and Fitch) designated by the Chief Finance and Administrative Officer.

“Sinking Fund Requirement” means, for any fiscal year, the principal amount and premium, if any, of Term Bonds required to be purchased, redeemed or paid at maturity in that fiscal year as established by the ordinance or other proceedings of the City authorizing the issuance of those Term Bonds.

“Tax Maximum” means the maximum amount permitted by the Code to be allocated to a bond reserve account from bond proceeds without requiring a balance to be invested at a restricted yield.

“Term Bonds” means any Future Parity Bonds identified as such in the proceedings for the sale thereof, the payment of the principal of which is fully provided for by a Sinking Fund Requirement.

“2010 Bonds” means the City’s Electric Revenue and Refunding Bonds, 2010, issued in three series on December 9, 2010, in the initial aggregate principal amount of \$48,700,000, as authorized by Ordinance No. 2010-29, and as they may be amended or refinanced from time to time.

“2013 Bond” means the City’s Junior Lien Electric Revenue Bond, 2013, issued on March 12, 2013, in the initial principal amount of \$35,530,000, as authorized by Ordinance No. 2013-02.

“2013(2d) Bond” means the City’s Junior Lien Electric Revenue Bond, 2013 Second Series, issued on November 14, 2013, in the initial principal amount of \$25,615,000, as authorized by Ordinance No. 2013-38.

“2014 Bond” means the City’s Junior Lien Electric Revenue Bond, 2014, issued on October 30, 2014, in the initial principal amount of \$16,325,000, as authorized by Ordinance No. 2013-38.

Rules of Interpretation. Words of the masculine gender are deemed and construed to include correlative words of the feminine and neuter genders. Words imparting the singular number include the plural numbers and vice versa unless the context otherwise indicates. Reference to sections and other subdivisions of this ordinance are to the sections and other subdivisions of this ordinance as originally adopted unless expressly stated to the contrary. The headings or titles of the sections hereof, and the table of contents appended hereto, are for convenience of reference only and do not define or limit the provisions hereof.

Section 3. Compliance with Parity Conditions. The Assembly hereby finds that the conditions required for issuance of the Bond as a Parity Bond have been or will be met. The Assembly finds that:

- (1) there will be no deficiency in the Bond Fund or any of the accounts therein;
- (2) this ordinance contains the required covenants (provided in Section 10 hereof) and provides that the Reserve Requirement, if any, will be funded no later than the date of delivery of the Bond; and
- (3) the City will have on file a certificate (dated no earlier than the date that is 90 days prior to the date of issuance of the Bond) relating to Net Revenue, as described in Section 11 (c) or (d) of Ordinance No. 2013-02 and Ordinance No. 2013-38, except as otherwise permitted under subsection (e) of Section 11 therein.

The parity conditions having been complied with or assured, the payments required in this ordinance to be made out of the Revenue Fund into the Bond Fund and the Reserve Account shall

constitute a lien and charge upon the money in the Revenue Fund equal to the lien and charge thereon for the payments required to be made into the Bond Fund to pay and secure the payment of the principal of and interest on the outstanding Parity Bonds.

Section 4. Authorization of Bonds. To provide funds to refinance the AEA Loan, the City shall issue and sell to the Bond Bank its junior lien electric revenue refunding bond in a principal amount not to exceed \$7,000,000 (the "Bond"). The Bond shall be designated as the "City and Borough of Sitka Junior Lien Electric Revenue Refunding Bond, 20__ (Taxable)," with such year and series designation as may be appropriate. The Bond shall be dated the date of its sale and delivery to the Bond Bank, in accordance with Section 17 hereof, shall be fully registered as to both principal and interest, shall be numbered in such manner and with any additional designation as the Registrar deems necessary for purposes of identification and control, shall bear interest at the rate or rates, shall mature on the date or dates and shall be paid in installments in the principal amounts and on the dates to be determined in accordance with Section 17 hereof. Interest on the Bond shall be calculated based on a 360-day year of twelve 30-day months.

The Bond shall be an obligation only of the Bond Fund and shall be payable and secured as provided herein. The Bond does not constitute an indebtedness or general obligation of the City within the meaning of the constitutional provisions and limitations of the State of Alaska.

Section 5. Registration, Payment and Transfer. The Chief Finance and Administrative Officer shall act as authenticating agent, transfer agent, paying agent and registrar for the Bond (collectively, the "Registrar"). Both principal of and interest on the Bond shall be payable in lawful money of the United States of America. Interest on the Bond shall be paid by check or draft of the Registrar mailed (on the date such interest is due) to the Registered Owner or nominee at the addresses appearing on the Bond Register on the fifteenth day of the month preceding each interest payment date. Principal of the Bond shall be payable upon presentation and surrender of the Bond to the Registrar by the Registered Owner or nominee at the office of the Registrar in Sitka, Alaska. Notwithstanding the foregoing, if the Bond is sold to the Bond Bank pursuant to the provisions of Section 17 of this ordinance, and for so long as the Bond Bank is the owner of the Bond, payments of principal of and interest on that Bond shall be made to the Bond Bank in accordance with the applicable Loan Agreement.

The Bond may be transferred only on the Bond Register maintained by the Registrar for that purpose upon the surrender thereof by the Registered Owner or nominee or his or her duly authorized agent and only if endorsed in the manner provided thereon, and thereupon a new fully registered Bond of like principal amount, maturity and interest rate shall be issued to the transferee in exchange therefor. Upon surrender thereof to the Registrar, the Bond is interchangeable for a bond or bonds (in denominations of \$5,000 or any integral multiple thereof) of an equal aggregate principal amount and of the same interest rates and principal payment amounts as the Bond. Such transfer or exchange shall be without cost to the Registered Owner or transferee.

The City may deem the person in whose name the Bond is registered to be the absolute owner thereof for the purpose of receiving payment of the principal of and interest on the Bond and for any and all other purposes whatsoever.

Section 6. Prepayment. Provisions for the optional prepayment of some or all principal installments of the Bond may be established pursuant to Section 17 and shall be set forth in the Loan Agreement. Portions of the principal amount of the Bond, in increments of \$5,000 or any integral multiple of \$5,000, may be prepaid.

So long as the Bond Bank is the owner of the Bond, notice of prepayment shall be given according to the terms of the Loan Agreement. If the Bond Bank is not the owner of the Bond, notice of prepayment shall be given not less than 30 nor more than 60 days prior to the date fixed for prepayment by first class mail, postage prepaid, to the Registered Owner of the Bond at the address appearing on the Bond Register. The requirements of this section shall be deemed complied with when notice is mailed as herein provided, regardless of whether it is actually received by the owner of the Bond. Each official notice of prepayment shall be dated and shall state: (i) the prepayment date, (ii) the prepayment price or prepayment premium, if any, payable upon such prepayment; (iii) if less than all of an installment of principal is to be prepaid, the principal amount to be prepaid (which must be an integral multiple of \$5,000); (iv) that the interest on the Bond, or on the principal amount thereof to be prepaid, designated for prepayment in such notice, shall cease to accrue from and after such prepayment date; and (v) that on such date there will become due and payable on the Bond the principal amount thereof to be prepaid and the interest accrued on such principal amount to the prepayment date.

Section 7. Revenue Fund.

(a) *Revenue Fund Established.* There has heretofore been established in the office of the Chief Finance and Administrative Officer a separate enterprise fund of the City designated as the "City and Borough of Sitka Electric Utility Revenue Fund" (the "Revenue Fund") All Revenue of the System will be deposited in the Revenue Fund. Notwithstanding the foregoing, the Chief Finance and Administrative Officer may maintain separate funds and accounts in such names and under such additional designations as may be required to comply with City practices and State law.

(b) *Priority of Application of Revenue of the System.* The Revenue Fund shall be held separate and apart from all other funds and accounts of the City, and the Revenue of the System deposited in this fund shall be used only for the following purposes and in the following order of priority:

First, to pay the Operating Costs;

Second, to pay principal of and interest on the 2010 Bonds;

Third, to make all payments required to be made into the reserve account for the 2010 Bonds;

Fourth, to pay principal of and interest on any Parity Bonds, including reimbursements to the issuer of a Qualified Letter of Credit or Qualified Insurance if the Qualified Letter of Credit or Qualified Insurance secures the payment of debt service on Parity Bonds and the ordinance authorizing those Parity Bonds provides for such reimbursement;

Fifth, to make all payments required to be made into the Reserve Account for Covered Bonds and to any reserve account created in the future for the payment of debt service on

Future Parity Bonds, including reimbursements to the issuer of a Qualified Letter of Credit or Qualified Insurance if the Qualified Letter of Credit or Qualified Insurance has been issued to fund the Reserve Requirement or the reserve requirement(s) for any Future Parity Bonds and if the ordinance authorizing those Future Parity Bonds provides for such reimbursement;

Sixth, to make all payments required to be made into any revenue bond redemption fund or revenue warrant redemption fund and debt service fund or reserve account created to pay and secure the payment of the principal of and interest on any revenue bonds or revenue warrants of the City having a lien on Revenue of the System subordinate and inferior to the lien thereon to pay or secure the payment of Parity Bonds; and

Seventh, to retire by redemption or purchase any outstanding revenue bonds or revenue warrants of the City, to make necessary additions, betterments, improvements and repairs to or extensions and replacements of the Electric System, to make deposits into the Rate Stabilization Account, or for any other lawful City purposes.

The City may transfer any money from any funds or accounts of the Electric System legally available therefor, except bond redemption funds, refunding escrow funds or defeasance funds, to meet the required payments to be made into the Bond Fund.

(c) *Rate Stabilization Account.* As authorized by Ordinance No. 2010-29, the Chief Finance and Administrative Officer has established a Rate Stabilization Account within the Revenue Fund, which Account currently has on deposit therein approximately \$688,000. The City may make additional payments into the Rate Stabilization Account from the Revenue Fund at any time. Money in the Rate Stabilization Account may be withdrawn at any time for deposit into the Revenue Fund and used for the purposes for which Revenue of the System may be used. Amounts withdrawn from the Rate Stabilization Account and deposited into the Revenue Fund shall increase Revenue of the System for the period in which they are withdrawn, and amounts deposited in the Rate Stabilization Account shall reduce Revenue of the System for the period during which they are deposited. Credits to or from the Rate Stabilization Account that occur within 90 days after the end of a fiscal year may be treated as occurring within that fiscal year. Earnings on the Rate Stabilization Account shall be credited to the Revenue Fund.

Section 8. Bond Fund. A special fund of the City known as the “City and Borough of Sitka 2013 Electric Revenue Bond Redemption Fund” (the “Bond Fund”) has heretofore been created in the office of the Chief Finance and Administrative Officer, with the Debt Service Account and Reserve Account established therein, and that Fund and the Accounts therein are hereby authorized to be continued so long as the Bond is outstanding. The Bond Fund shall be drawn upon for the sole purpose of paying the principal of and interest on the Parity Bonds.

(a) *Payments into Debt Service Account.* As long as any Parity Bond remains outstanding, the City hereby irrevocably obligates and binds itself to set aside and pay into the Debt Service Account out of money in the Revenue Fund, on or before the date due as provided in the Loan Agreement, the amounts necessary, together with money already in the Debt Service Account, to pay the principal of, premium, if any, and interest on the Bond as the same become due and payable.

If there is a deficiency in the Debt Service Account for such purpose, the City shall make up the deficiency from the Reserve Account by the withdrawal of cash therefrom for that purpose, and, if necessary, by sale or redemption of any authorized investments in the amount that will provide cash in the Reserve Account sufficient to make up any such deficiency.

Whenever and so long as the assets of the Debt Service Account are sufficient to provide money to pay when due a principal installment on the Bond in full, including such interest as may be due thereon, no payments need be made into the Debt Service Account pursuant to this ordinance.

Money in the Debt Service Account shall be held for the benefit of the owners of all Parity Bonds then outstanding and payable equally and ratably and without preference or distinction as between different series, installments, or maturities.

(b) *The Reserve Account.* The Reserve Account shall be maintained as a common reserve, securing the payment of the principal of and interest on the 2013 Bond, the 2013(2d) Bond, the 2014 Bond, the Bond, any Future Parity Bonds that (i) are designated as Covered Bonds in the ordinance authorizing their issuance and (ii) so long as the Bond Bank is the owner of any of the Parity Bonds, are approved as “Covered Bonds” by the Bond Bank, and the 2010 Bonds, if the Bond Bank approves designating the 2010 Bonds as “Covered Bonds” (inclusively, “Covered Bonds”). Prior to or upon the issuance of the Bond, the City will deposit into the Reserve Account funds sufficient to satisfy the Reserve Requirement for the Bond. The City covenants and agrees that from and after the closing and delivery of the Bond, it will at all times maintain an amount in the Reserve Account at least equal to the Reserve Requirement, except for withdrawals therefrom authorized by this ordinance, so long as any Covered Bonds remain outstanding. The Reserve Requirement may be maintained by deposits of cash, a Qualified Letter of Credit or Qualified Insurance, or a combination of the foregoing. All amounts other than a Qualified Letter of Credit or Qualified Insurance held in the Reserve Account shall be invested solely in Permitted Investments. In computing the amount on hand in the Reserve Account, Qualified Insurance and/or a Qualified Letter of Credit shall be valued at the face amount thereof, and all other Reserve Account investments shall be valued as provided in (d) below. As used herein, the term “cash” includes U.S. currency, cash equivalents and evidences thereof, including demand deposits, certified or cashier’s check. The deposit to the Reserve Account may be satisfied initially by the transfer of qualified investments to that account.

If the balances on hand in the Reserve Account are sufficient to satisfy the Reserve Requirement, interest earnings shall be applied as provided in the following sentences. Whenever there is a sufficient amount in the Bond Fund, including the Reserve Account to pay the principal of and interest on all outstanding Covered Bonds, the money in the Reserve Account may be used to pay such principal and interest. As long as the money left remaining on deposit in the Reserve Account is equal to the Reserve Requirement, money in the Reserve Account may be transferred to the Bond Fund and used to pay the principal of and interest on Covered Bonds as the same become due and payable. The City also may transfer out of the Reserve Account any money required in order to prevent any Parity Bonds from becoming “arbitrage bonds” under the Code.

If a deficiency in the Bond Fund for the payment of debt service on Covered Bonds occurs, the deficiency shall be made up from the Reserve Account by the withdrawal of cash therefrom

for that purpose and by the sale or redemption of obligations held in the Reserve Account, in such amounts as will provide cash in the Reserve Account sufficient to make up any such deficiency with respect to Covered Bonds, and if a deficiency still exists immediately prior to an interest payment date and after the withdrawal of cash, the City shall then draw from any Qualified Letter of Credit or Qualified Insurance for Covered Bonds in sufficient amount to make up the deficiency. Such draw shall be made at such times and under such conditions as the agreement for such Qualified Letter of Credit or such Qualified Insurance provides.

In making the payments and credits to the Reserve Account required by this Section 8(b), to the extent that the City has obtained Qualified Insurance or a Qualified Letter of Credit for specific amounts required pursuant to this section to be paid out of the Reserve Account such amounts so covered by Qualified Insurance or a Qualified Letter of Credit will be credited against the amounts required to be maintained in the Reserve Account by this Section 8(b) to the extent that such payments and credits to be made are insured by an insurance company, or guaranteed by a letter of credit from a financial institution.

Any deficiency created in the Reserve Account by reason of any such withdrawal shall then be made up within one year of the date of withdrawal from Net Revenue (or out of any other money on hand legally available for such purpose) after making necessary provision for the payments required to be made by paragraphs First through Fourth in Section 7 of this ordinance.

Any Qualified Letter of Credit or Qualified Insurance shall not be cancelable on less than 30 days' notice to the City. In the event of any cancellation, the Reserve Account shall be funded as if the Covered Bonds that remain outstanding had been issued on the date of such notice of cancellation.

If the City elects to meet the Reserve Requirement by using a Qualified Letter of Credit, Qualified Insurance or other equivalent credit enhancement device, the City may contract with the entity providing such Qualified Letter of Credit, Qualified Insurance or other equivalent credit enhancement device that the City's reimbursement obligation, if any, to such entity shall be made from payments of principal and interest on Covered Bonds from the City subject only to the prior lien thereon for the payments required hereunder to be made to registered owners of Parity Bonds.

(c) *Priority of Lien of Payments into Bond Fund and Reserve Account.* The amounts so pledged to be paid into the Bond Fund and the accounts therein from the Revenue Fund are hereby declared to be a prior lien and charge on the Revenue of the System superior to all other charges of any kind or nature whatsoever except the Operating Costs and payments required to be made to pay and secure the payment of the 2010 Bonds, and equal in rank to the lien and charge on Revenue of the System to pay and secure the payment of any Future Parity Bonds.

(d) *Application and Investment of Money in the Bond Fund.* Money in the Bond Fund may be kept in cash or Permitted Investments. Investments in the Debt Service Account shall mature prior to the date on which such money is needed for required interest or principal payments or having a guaranteed redemption price prior to maturity. Investments in the Reserve Account shall mature not later than the last maturity of any then outstanding Parity Bonds.

(e) *Sufficiency of Revenues.* The Assembly hereby finds that in fixing the amounts to be paid into the Bond Fund and the accounts therein out of Revenue of the System, it has exercised due regard for the Operating Costs and has not obligated the City to set aside and pay into the Bond Fund and the accounts therein a greater amount of such Revenue than in its judgment will be available over and above the Operating Costs and costs of paying debt service on the 2010 Bonds.

Section 9. Defeasance. If money and/or Government Obligations, maturing at such time or times and bearing interest to be earned thereon in amounts sufficient to redeem and retire the Bond or a portion thereof in accordance with its terms, are set aside in a special account to effect such prepayment and retirement, and such money and the principal of and interest on such obligations are irrevocably set aside and pledged for such purpose, then no further payments need be made into the Bond Fund for the payment of the principal of and interest on the Bond or portion thereof so provided for, and the Bond or portion thereof shall cease to be entitled to any lien, benefit or security of this ordinance except the right to receive the money so set aside and pledged, and the Bond or portion thereof shall be deemed not to be outstanding hereunder.

Section 10. Specific Covenants.

(a) *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.

The City shall cause the rate coverage calculation described in this Section 10(a) to be made no later than 90 days following the end of each fiscal year. Failure to collect Revenue of the System in any fiscal year sufficient to comply with the rate covenant set forth in this Section 10(a) will not constitute an Event of Default under this ordinance if, before the 180th day of the following fiscal year, the City:

(1) employs a Consultant to recommend changes in the Electric System rates that are estimated to produce Revenue of the System sufficient to satisfy the rate covenant set forth in this Section 10(a); and

(2) imposes Electric System rates at least as high as those recommended by the Consultant that will become effective at the time or times so recommended.

(b) *Electric System Maintenance.* The City will at all times maintain and keep the Electric System in good repair, working order and condition, and also will at all times operate the Electric System and the business in connection therewith in an efficient manner and at a reasonable cost.

(c) *Disposal of Properties.* The City will not mortgage, sell, lease, or in any manner encumber or dispose of all or substantially all the property of the Electric System (voluntarily or involuntarily), unless provision is made for payment into the Bond Fund of a sum sufficient to pay the principal of, premium, if any, and interest on all outstanding Parity Bonds, nor will it mortgage, sell, lease, or in any manner encumber or dispose of (including but not limited to a disposition by

transfer to another public or private organization) voluntarily or involuntarily any part of the Electric System that is used, useful and material to the operation of the Electric System unless:

(1) the City certifies, based upon reasonable expectations, that the remaining assets of the Electric System will be sufficient to continue regular operations of the City on a financially sound basis for a period of at least five years and

(2) provision is made for replacement thereof or for payment into the Bond Fund of the total amount of revenue received, which shall not be less than an amount that bears the same ratio to the amount of outstanding Parity Bonds as the greatest of

(A) the Net Revenue available for Debt Service for such outstanding Parity Bonds for the 12 months preceding such sale, lease, encumbrance or disposal from the portion of the Electric System sold, leased, encumbered or disposed of bears to the Net Revenue available for Debt Service for such Parity Bonds from the entire Electric System for the same period;

(B) the Revenue of the System for the 12 months preceding such sale, lease, encumbrance or disposal from the portion of the Electric System sold, leased, encumbered or disposed of bears to the Revenue of the System for the same period;

(C) the proportion of assets (on a depreciated basis) allocable to the assets being sold, leased, encumbered or disposed of bears to the total assets of the Electric System; or

(D) the ratio of the number of customers of the City allocable to the assets being sold, leased, encumbered or disposed of to the total number of customers of the Electric System,

except that the City may dispose of any portion of the facilities of the Electric System up to an aggregate of 5% of the book value of the total assets of the Electric System without the requirement for any deposit to the Bond Fund as hereinabove provided.

Any such money so paid into the Bond Fund must be used to retire such outstanding Parity Bonds at the earliest possible date. Any money received by the City as condemnation awards, insurance proceeds or the proceeds of sale, if not deposited to the Bond Fund, shall be used for the replacement of facilities of the Electric System.

(d) *Books and Records.* The City will, while the Bond remains outstanding, keep proper and separate accounts and records in which complete and separate entries shall be made of all transactions relating to the Electric System, and it will furnish the registered owner of the Bond, at the written request of the owner, complete operating and income statements of the Electric System in reasonable detail covering any fiscal year, showing compliance with the terms and conditions of this ordinance, not more than 150 days after the close of such fiscal year, and it will grant the owner of the Bond the right at all reasonable times to inspect the entire Electric System and all records, accounts and data of the City relating thereto. Upon request of the owner of the Bond, it will also furnish to the owner a copy of the most recently completed audit of the City's accounts by an independent certified public accountant.

(e) *No Free Service.* The City will not furnish any commodity or service of the Electric System to any customer whatsoever free of charge (except as permitted by law to aid the poor, to provide for resource conservation or to provide for the proper handling of hazardous materials) and will promptly take legal action to enforce collection of all delinquent accounts.

(f) *Insurance.* The City will either self-insure or, as needed, and to the extent insurance coverage is available at reasonable cost with responsible insurers, keep, or cause to be kept, the Electric System and the operation thereof insured, with policies payable to the City, against the risks of direct physical loss, damage to or destruction of the Electric System, or any part thereof, and against accidents, casualties or negligence, including liability insurance and employer's liability, at least to the extent that similar insurance is usually carried by municipalities operating like utilities. If insurance policies to provide coverage required by this subsection are not obtainable at reasonable cost with responsible insurers, the City shall, prior to the lapse of such policies, deliver an opinion to that effect to the Registered Owner of the Bond.

Section 11. Issuing Future Parity Bonds.

(a) *No Senior Lien Bonds.* The City hereby covenants and agrees with the owner of the Bond that the City will hereafter issue no bonds with a lien on Revenue of the System superior to the lien thereon of the Bond, and by this covenant and agreement the City expressly waives its rights under Ordinance No. 2010-29 to issue additional bonds on a parity of lien with the 2010 Bonds.

(b) *Conditions for Issuing Future Parity Bonds.* Except as provided in subsections (e) and (f) below, the City will issue Future Parity Bonds or incur any additional indebtedness with a parity lien or charge on Net Revenue (*i.e.*, on a parity of lien with the Bond and any other Parity Bonds at the time outstanding) only in compliance with the following conditions:

(1) At the time of the issuance of any Future Parity Bonds, there is no deficiency in the Bond Fund or any of the accounts therein;

(2) The ordinance authorizing the issuance of Future Parity Bonds will include the covenants provided in Section 10 hereof and provide that the Reserve Requirement, if any, will be funded no later than the date of delivery of the Future Parity Bonds; and

(3) the City will have on file a certificate (dated no earlier than the date that is 90 days prior to the date of issuance of the Future Parity Bonds) relating to Net Revenue, as described in subsection (c) or (d) below, except as otherwise permitted under subsection (e) below.

(c) *Certificate of the City Without A Consultant.* If required pursuant to subsection (b)(3) above, a certificate may be delivered by the City, executed by the Chief Finance and Administrative Officer without a Consultant, showing that Net Revenue (which may be based on unaudited financial statements of the City if the audit has not yet been completed) for the Base Period equals at least 125% of the maximum Annual Debt Service for all 2010 Bonds and Parity Bonds then outstanding plus the proposed Future Parity Bonds.

(d) *Certificate of a Consultant.* If required pursuant to subsection (b)(3) above, a certificate of a Consultant may be delivered by the City showing that Net Revenue for the Base

Period equals at least 125% of the maximum Annual Debt Service for all 2010 Bonds and Parity Bonds then outstanding plus the proposed Future Parity Bonds. In computing Net Revenue for the purpose of this certificate, the Consultant shall use as a basis the Net Revenue (which may be based on unaudited financial statements of the City if the audit has not yet been completed) for the Base Period. Such Net Revenue may be adjusted to take into consideration changes in Net Revenue estimated to occur under one or more of the following conditions after delivery of the proposed Future Parity Bonds:

(1) any increase or decrease in Net Revenue projected to result from changes in rates and charges (A) adopted prior to the date of the certificate but after the beginning of the Base Period and (B) effective at any time prior to the date needed for payment of Debt Service on Parity Bonds;

(2) any increase or decrease in Net Revenue estimated by such engineer or accountant to result from any additions, betterments and improvements to and extensions of any facilities of the Electric System that (A) became fully operational after the beginning of the Base Period, (B) were under construction at the time of such certificate, or (c) will be constructed from the proceeds of the Future Parity Bonds to be issued;

(3) the additional Net Revenue that would have been received if any customers added to the Electric System after the beginning of the Base Period had been customers for the entire period.

The Consultant shall base the certification upon, and the certificate shall have attached thereto, financial statements of the Electric System, certified by the Chief Finance and Administrative Officer, showing income and expenses for the Base Period.

(e) *No Certificate Required.* The certificate described in subsection (b)(3) and subsections (c) or (d) above is not required as a condition to the issuance of Future Parity Bonds:

(1) if the Future Parity Bonds being issued are for the purpose of refunding outstanding Parity Bonds; or

(2) if the Future Parity Bonds are being issued to pay costs of construction of facilities of the Electric System for which Parity Bonds have been issued previously and the principal amount of such Future Parity Bonds being issued for completion purposes does not exceed an amount equal to an aggregate of 15% of the principal amount of Parity Bonds theretofore issued for such facilities and reasonably allocable to the facilities to be completed as shown in a written certificate of the Chief Finance and Administrative Officer, and there is delivered a certificate of the Municipal Administrator stating that the nature and purpose of such facilities has not materially changed.

(f) *Refunding Obligations.* Nothing herein contained shall prevent the City from issuing revenue bonds to refund maturing Parity Bonds for the payment of which money is not otherwise available.

Section 12. Subordinate Lien Bonds. Nothing herein contained shall prevent the City from issuing revenue bonds or other obligations that are a charge upon the Revenue of the System

subordinate or inferior to the payments required by this ordinance to be made out of such Revenue to pay and secure the payment of any Parity Bonds. Such subordinate or inferior obligations may not be subject to acceleration. This prohibition against acceleration does not prohibit mandatory tender or other tender provisions with respect to variable rate obligations.

Section 13. Form of the Bond. The Bond will be in substantially the form set forth on Exhibit A.

Section 14. Execution of the Bond. The Bond shall be signed on behalf of the City by the manual or facsimile signature of the Mayor, shall be attested by the manual or facsimile signature of the Municipal Clerk, and the seal of the City shall be impressed or imprinted thereon.

Only a Bond that bears thereon a Certificate of Authentication in the form set forth in Exhibit A, manually executed by the Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this ordinance. The Certificate of Authentication shall be conclusive evidence that the Bond so authenticated has been duly executed, authenticated, registered, and delivered hereunder and is entitled to the benefits of this ordinance.

In case any officer of the City who has signed, attested, authenticated, registered, or sealed the Bond ceases to hold that office before the Bond so signed, attested, authenticated, registered or sealed has been actually issued and delivered, the Bond shall be valid nevertheless and may be issued by the City with the same effect as though the person who had signed, attested, authenticated, registered or sealed that Bond had not ceased to hold that office. Any Bond may also be signed, attested, authenticated, registered or sealed on behalf of the City by a person who, at the actual date of execution of the Bond is a proper officer of the City although at the original date of the Bond that person did not hold that office.

Section 15. Lost or Destroyed Bond. If the Bond is lost, stolen or destroyed, the Registrar may authenticate and deliver a new Bond of like amount, date, and tenor to the Registered Owner upon such owner's paying the expenses and charges of the City in connection with preparation and authentication of the replacement Bond and upon his or her filing with the Registrar evidence satisfactory to the Registrar that the Bond was actually lost, stolen or destroyed and of his or her ownership, and upon furnishing the City with indemnity satisfactory to the Registrar.

Section 16. Application of Bond Proceeds; Plan of Refunding. Upon the issuance of the Bond, proceeds of the Bond shall be applied, as follows:

- (a) An amount sufficient to pay in full the outstanding balance of the AEA Loan shall be paid to or at the direction of AEA;
- (b) An amount shall be deposited in the Reserve Account that is sufficient, with other funds on deposit therein, to satisfy the Reserve Requirement for the Bond; and
- (c) The remaining proceeds of the Bond shall be applied to pay costs of issuance of the Bond, with any balance deposited into the Bond Fund.

Section 17. Sale of the Bond. The Chief Finance and Administrative Officer is authorized to negotiate the sale of the Bond to the Bond Bank on terms and conditions consistent with this ordinance and the Bond Bank's loan approval to be set forth in a Loan Agreement by and between the City and the Bond Bank (a sample of which is set forth on Exhibit B attached hereto). The Loan Agreement will include the principal amount, date, principal installment payment schedules, interest rates, and prepayment provisions for the Bond, all as provided for in this ordinance, subject to the approval of the Municipal Administrator, which approval shall be evidenced by the Municipal Administrator's execution of the Loan Agreement. Following the execution of the Loan Agreement, the Chief Finance and Administrative Officer shall provide a report to the Assembly, describing the final terms of the Bond approved pursuant to the authority delegated by this ordinance.

The authority granted to the Chief Finance and Administrative Officer and Municipal Administrator by this section for the initial sale of the Bond shall expire on December 31, 2020. If a Loan Agreement for the Bond has not been executed by December 31, 2020, the authorization for the issuance of the Bond shall be rescinded, and the Bond shall not be issued nor its sale approved unless the Bond is re-authorized by ordinance. The ordinance reauthorizing the issuance and sale of the Bond may be in the form of a new ordinance repealing this ordinance in whole or in part (only with respect to the Bond not issued) or may be in the form of an amendatory ordinance approving a Loan Agreement or establishing terms and conditions for the authority delegated under this section.

The proper officials of the City and their agents and representatives are hereby authorized and directed to do everything necessary for the prompt execution and delivery of the Bond to the Bond Bank in accordance with the provisions of this ordinance and the Loan Agreement.

The Chief Finance and Administrative Office and Municipal Administrator are further authorized from time to time to approve a revised schedule of principal payment amounts and interest rates for the Bond, in accordance with the refinancing provisions of the Loan Agreement in connection with a refunding of the Bond Bank Bonds, so long as the revised debt service schedule is financially advantageous to the City. The Municipal Administrator is authorized to sign an amendment to the Loan Agreement that sets forth the revised debt service schedule, and the Municipal Administrator, Chief Finance and Administrative Officer, Municipal Attorney, Municipal Clerk, and other appropriate officers of the City are authorized and directed to take such steps, to do such other acts and things, and to execute such letters, certificates, agreements, or instruments as in their judgment may be necessary, appropriate or desirable for refinancing the Bonds in connection with a refunding of the Bond Bank Bonds.

Section 18. Events of Default.

To protect and safeguard the covenants and obligations undertaken by the City securing the Bond, the City hereby covenants and agrees with the purchaser and owner from time to time of the Bond that the following shall constitute "Events of Default":

(1) If default is made in the due and punctual payment of the principal of or premium, if any, on any of the Parity Bonds when the same become due and payable, either at maturity or by proceedings for redemption or otherwise;

(2) If default is made in the due and punctual payment of any installment of interest on any Parity Bond;

(3) If the City fails, by any Sinking Fund Requirement date, to have purchased or redeemed Term Bonds in a cumulative principal amount at least equal to the cumulative Sinking Fund Requirements at such Sinking Fund requirement date;

(4) If the City defaults in the observance and performance of any other of the covenants, conditions and agreements on the part of the City contained in this ordinance and such default or defaults continues for a period of 90 days after the City receives from a representative of (a) owners of not less than 66% in principal amount of the Parity Bonds then outstanding or (b) the Bond Bank, if the Bond Bank is then the Registered Owner of any of the Parity Bonds, a written notice specifying and demanding the cure of such default;

(5) If the City (except as herein permitted) sells, transfers, assigns or conveys any properties constituting the Electric System or interests therein, or makes any agreement for such sale or transfer (except as expressly authorized herein);

(6) If an order, judgment or decree is entered by any court of competent jurisdiction: (a) appointing a receiver, trustee or liquidator for the City or the whole or any substantial part of the Electric System; (b) approving a petition filed against the City seeking the bankruptcy, arrangement or reorganization of the City under any applicable law of the United States or the State of Alaska; or (c) assuming custody or control of the City or of the whole or any substantial part of the Electric System under the provisions of any other law for the relief or aid of debtors and such order, judgment or decree is not vacated or set aside or stayed (or, in case custody or control is assumed by said order, such custody or control is not otherwise terminated) within 90 days from the date of the entry of such order, judgment or decree; or

(7) If the City: (a) admits in writing its inability to pay its debts generally as they become due; (b) files a petition in bankruptcy or seeking a composition of indebtedness under any state or federal bankruptcy or insolvency law; (c) makes an assignment for the benefit of its creditors; (d) consents to the appointment of a receiver of the whole or any substantial part of the Electric System; or (e) consents to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the City or of the whole or any substantial part of the Electric System.

Section 19. Remedies Available for an Event of Default.

(a) *Waivers of Default.* No delay or omission of the owners of the Parity Bonds to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or to be an acquiescence therein; and every power and remedy given by this Section to the owners of Parity Bonds may be exercised from time to time and as often as may be deemed expedient by such owners.

The owners of not less than 66% in principal amount of the Parity Bonds at the time outstanding (the "Majority Bondowners"), or their attorneys-in-fact duly authorized, may on behalf of the owners of all of the Parity Bonds waive any past default under this ordinance and its consequences, except a default in the payment of the principal of, premium, if any, or interest on

any of the Parity Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

(b) *Suits at Law or in Equity.* The Majority Bondowners may, upon the happening of an Event of Default, and during the continuance thereof, take such steps and institute such suits, actions or other proceedings all as may be deemed appropriate for the protection and enforcement of the rights of owners of the Parity Bonds to collect any amounts due and owing the City, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement or condition contained in this ordinance, or in any of the Parity Bonds.

Any action, suit or other proceedings instituted by the Majority Bondowners hereunder shall be brought in its name on behalf of all owners of the Parity Bonds, and all such rights of action upon or under any of the Parity Bonds or the provisions of this ordinance may be enforced by the Majority Bondowners without the possession of any of said Parity Bonds and without the production of the same at any trial or proceedings relative thereto except where otherwise required by law, and the respective owners of said Parity Bonds, by taking and holding the same, shall be conclusively deemed irrevocably to appoint the Majority Bondowners the true and lawful trustee of the respective owners of the Parity Bonds, with authority to institute any such action, suit or proceeding; to receive as trustee and deposit in trust any sums becoming distributable on account of the Parity Bonds; to execute any paper or documents for the receipt of such money, and to do all acts with respect thereto that the owner of a Parity Bond might have done in person. Nothing herein contained shall be deemed to authorize or empower the Majority Bondowners to consent to accept or adopt, on behalf of any owner of any Parity Bond, any plan or reorganization or adjustment affecting the Parity Bonds or any right of any owner thereof, or to authorize or empower the Majority Bondowners to vote the claims of the owners thereof in any receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the City shall be a party.

Nothing contained in this ordinance shall, in any event or under any circumstance, be deemed to authorize the acceleration of maturity of principal on Parity Bonds outstanding, and the remedy of acceleration is expressly denied to the owners of Parity Bonds outstanding under any circumstances including, without limitation, upon the occurrence and continuance of an Event of Default.

(c) *Books of City Open to Inspection.* The City covenants that if an Event of Default occurs and is not remedied, the books of record and account of the City will at all reasonable times be subject to the inspection and use of the owners of any Parity Bonds.

The City covenants that if an Event of Default happens and is not remedied, the City will continue to account, as trustee of an express trust, for all Revenues of the System and other money, securities and funds pledged under this ordinance.

Section 20. Ongoing Disclosure. The City acknowledges that, under Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), the City may now or in the future be an "obligated person" with respect to the Bond Bank Bonds or other bonds issued by the Bond Bank. In accordance with the Rule and as the Bond Bank may require, the City shall undertake to provide certain annual financial information and operating as shall be set forth in the Loan Agreement.

Section 21. General Authorization; Prior Acts. The Mayor, Municipal Administrator, Chief Finance and Administrative Officer, Municipal Attorney, and Municipal Clerk and any other appropriate officers of the City are each hereby authorized and directed to take such steps, to do such other acts and things, and to execute such letters, certificates, agreements, papers, financing statements, assignments or instruments as in their judgment may be necessary, appropriate or desirable to carry out the terms and provisions of, and complete the transactions contemplated by, this ordinance. All acts taken pursuant to the authority of this ordinance but prior to its effective date are hereby ratified and confirmed.

Section 22 Severability. If any one or more of the covenants or agreements provided in this ordinance to be performed on the part of the City are declared by any court of competent jurisdiction to be contrary to law, then such covenant or covenants, agreement or agreements, shall be null and void and shall be deemed separable from the remaining covenants and agreements of this ordinance and shall in no way affect the validity of the other provisions of this ordinance or of the Bond.

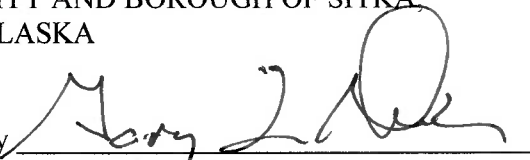
Section 23. Effective Date. This ordinance shall be in full force and effect 30 days after its adoption by the Assembly.

READ FOR THE FIRST TIME at a regular meeting of the Assembly held on May 26, 2020.

PASSED AND APPROVED by the Assembly on June 9, 2020.


CITY AND BOROUGH OF SITKA
ALASKA

By



Gary L. Paxton, Mayor

ATTEST:



Sara Peterson, MMC
Municipal Clerk

EXHIBIT A

FORM OF THE BOND

NO. _____

\$ _____

UNITED STATES OF AMERICA

STATE OF ALASKA

CITY AND BOROUGH OF SITKA

JUNIOR LIEN ELECTRIC REVENUE REFUNDING BOND, 20__ (TAXABLE)

INTEREST RATE:

FINAL MATURITY DATE:

SEE BELOW

REGISTERED OWNER: ALASKA MUNICIPAL BOND BANK

PRINCIPAL AMOUNT: _____ AND NO/100 DOLLARS

The City and Borough of Sitka, Alaska (the "City"), a municipal corporation organized and existing under and by virtue of its charter and the laws and Constitution of the State of Alaska, hereby acknowledges itself to owe and for value received promises to pay to the Registered Owner identified above, or registered assigns, the principal amount specified above, in installments payable as set forth below, together with interest on such installments from the date hereof or the most recent date to which interest has been paid or duly provided for, at the interest rates set forth below, on _____ 1, 20__, and on each _____ 1 and _____ 1 thereafter until payment of the principal sum has been made or duly provided for.

Principal Installment Payment Year (_____ 1)	Principal Installment Amount	Interest Rate
2021		
2022		
2023		
2024		
2025		
2026		
2027		
2028		
2029		
2030		
2031		
2032		
2033		

Both principal of and interest on this bond are payable solely from the special fund of the City known as the City and Borough of Sitka 2013 Electric Revenue Bond Redemption Fund (the "Bond Fund"). Payments of principal of and interest on this bond shall be made in lawful money of the United States of America. Installments of principal of and interest on this bond are payable by check or draft of the Chief Finance and Administrative Officer of the City (the "Registrar") mailed on the date such interest is due to the Registered Owner at the address appearing on the

Bond Register as of the fifteenth day of the month preceding the interest payment date. The final installment of principal of and interest on this bond shall be paid to the Registered Owner upon presentation and surrender of this bond at the office of the Registrar. Notwithstanding the foregoing, so long as the Bond Bank is the Registered Owner of this bond, payments of principal of and interest on this bond shall be made to the Bond Bank in accordance with the Loan Agreement.

This bond is issued pursuant to Ordinance No. 2020-30, passed June 9, 2020 (the “Bond Ordinance”), to provide funds to refinance an outstanding loan to the City from the Alaska Energy Authority. Capitalized terms used in this bond and not otherwise defined herein have the meanings given those terms in the Bond Ordinance.

Principal installments of this bond are subject to prepayment as provided in the Bond Ordinance and in the Loan Agreement.

The City does hereby pledge and bind itself to set aside from the Electric System Revenue Fund of the City created by the Bond Ordinance, and to pay into the Bond Fund and the Accounts therein, the various amounts required by the Bond Ordinance to be paid into and maintained in said Fund and Accounts, all within the times provided by the Bond Ordinance. The City has further pledged and bound itself to pay into the Revenue Fund as collected, all Revenue of the System.

The amounts so pledged to be paid out of the Revenue Fund into the Bond Fund and Accounts therein are hereby declared to be a prior lien and charge upon money in the Revenue Fund superior to all other charges of any kind or nature except Operating Costs and the costs of paying and securing payment of the 2010 Bonds and equal in rank to the lien and charge on the money in the Bond Fund to pay and secure the payment of other Parity Bonds.


The pledge of Revenue of the System for payment of principal of and interest on this bond may be discharged prior to maturity of this bond by making provision for the payment thereof on the terms and conditions set forth in the Bond Ordinance and Loan Agreement.

This bond will not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Ordinance until the Certificate of Authentication hereon has been manually signed by the Registrar.

It is hereby certified and declared that this bond is issued pursuant to and in strict compliance with the Constitution and laws of the State of Alaska and the charter, ordinances, and resolutions of the City, that all acts, conditions and things required to be done precedent to and in the issuance of this bond have happened, been done and performed, and that this bond does not exceed any Constitutional or statutory limitations.


IN WITNESS WHEREOF, the City and Borough of Sitka, Alaska, has caused this bond to be signed on behalf of the City with the manual or facsimile signature of the Mayor, to be attested by the manual or facsimile signature of the Municipal Clerk, and the seal of the City to be imprinted or impressed hereon, as of this 9 day of June, 2020.

CITY AND BOROUGH OF SITKA,
ALASKA

By 
Gary L. Paxton, Mayor

[SEAL]

ATTEST:

/s/ 
Sara Peterson, MMC
Municipal Clerk

CERTIFICATE OF AUTHENTICATION

Date of Authentication: 6-10-2020

This is the City and Borough of Sitka, Alaska, Junior Lien Electric Revenue Refunding Bond, 20__ (Taxable), dated June 9, 2020, as described in the Bond Ordinance.

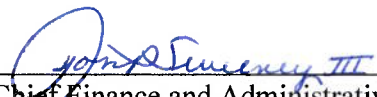

Chief Finance and Administrative Officer,
City and Borough of Sitka, Alaska, as
Registrar

EXHIBIT B

FORM OF LOAN AGREEMENT

THIS LOAN AGREEMENT, dated as of the ____ day of _____ 20__ (the "Loan Agreement"), between the Alaska Municipal Bond Bank (the "Bank"), a body corporate and politic constituted as an instrumentality of the State of Alaska (the "State") exercising public and essential governmental functions, created pursuant to the provisions of Chapter 85, Title 44, Alaska Statutes, as amended (the "Act"), having its principal place of business at Juneau, Alaska, and the [City] [Borough], Alaska, a duly constituted _____ [City] [Borough] of the State (the "[City] [Borough]"):

WITNESSETH:

WHEREAS, pursuant to the Act, the Bank is authorized to issue bonds and make loans of money (the "Loan" or "Loans") to governmental units; and

WHEREAS, the [City] [Borough] is a "Governmental Unit" as defined in the General Bond Resolution of the Bank hereinafter mentioned and is authorized to accept a Loan from the Bank, evidenced by its municipal bond; and

WHEREAS, the [City] [Borough] desires to borrow money from the Bank in the amount not to exceed \$ _____ and has submitted an application to the Bank for a Loan in the amount not to exceed \$ _____; and

WHEREAS, the [City] [Borough] has duly authorized the issuance of its fully registered bond in the principal amount of \$ _____ (the "Municipal Bond"), which Municipal Bond is to be purchased by the Bank as evidence of and security for the [City's] [Borough's] obligation to repay the Loan in accordance with this Loan Agreement; and

WHEREAS, the application of the [City] [Borough] contains the information requested by the Bank; and

WHEREAS, to provide for the issuance of bonds of the Bank to obtain from time to time money with which to make and/or refinance Loans, the Board of Directors of the Bank (the "Board") has adopted its General Obligation Bond Resolution on July 13, 2005, as amended (the "General Bond Resolution"); and

WHEREAS, the Board approved certain modifications to the General Bond Resolution, effective on the date when all bonds issued under the terms of the General Bond Resolution, prior to February 19, 2013, cease to be outstanding; and

WHEREAS, on April [], 2020, the Board adopted Series Resolution No. 2020-[] (the "Series Resolution" and together with the General Bond Resolution, the "Bond Resolution"), authorizing the Bank to, among other things, issue the Bank's General Obligation and Refunding Bonds, 2020 Series One Bonds and General Obligation and Refunding Bonds, 2020 Series Two

CERTIFICATE

I, the undersigned, duly chosen, qualified and acting Municipal Clerk of the City and Borough of Sitka (the "City") and keeper of the records of the Assembly, DO HEREBY CERTIFY:

1. That the attached is a true and correct copy of Ordinance No. 2020- 30 of the Assembly (the "Ordinance"), as finally adopted at a regular meeting of the Assembly held on June 9, 2020, and duly recorded in my office.

2. That said meeting was duly convened and held in all respects in accordance with law, and to the extent required by law, due and proper notice of such meeting was given; that a legal quorum of the Assembly was present throughout the meeting and a legally sufficient number of members of the Assembly voted in the proper manner for the passage of the Ordinance; that all other requirements and proceedings incident to the proper passage of said Ordinance have been duly fulfilled, carried out and otherwise observed, and that I am authorized to execute this certificate.

IN WITNESS WHEREOF, I have hereunto set my hand this 10 day of June, 2020.



Municipal Clerk
City and Borough of Sitka