

Minutes

Budget Advisory Commission Special Meeting – January 19, 2018

Meeting called to order at 10:10 am by commission Chair Al Tamagni.
No quorum, the BAC acted as a Committee of the Whole

Members present:

Chair Al Tamagni
Joe Riggs
Karl von Lührte
Shirley Nelson
Jon Watkins
Nolan Klouda (not present)
Lois Epstein (not present, excused)
Tasha Hotch (not present)
Carla McConnell (not present, excused)
Austin Quinn-Davidson (not present, excused)

Also Present:

Becky Windt Pearson, Municipal Attorney
Mark Johnston, Manager, ML&P
Lance Wilber, Director, OMB

Approval of Minutes

- No minutes for approval

Business:

Discuss the Proposed sale of ML&P to Chugach Electric.

Lance Wilber noted that this special meeting was requested and called by Chair Tamagni after he attend an Assembly worksession on the sale of ML&P in City Hall on January 12th following our strategic planning session.

Lance introduced Municipal Attorney Becky Windt Pearson to lead the discussion with the BAC. Becky provided to the BAC members a copy of the presentation generated by Chugach Electric Association (CEA or Chugach) which was previously shared by CEA with the Assembly on December 21, 2017. Becky stated she would provide an overview of the presentation based on the materials CEA provided and asked Mr. Mark Johnston, General Manager of ML&P to chime in as well. Becky said that after her review of the CEA material, she would then present the materials she provided to the Assembly on January 12, 2018 which discuss the process, legal authority and revised draft Assembly Ordinance that, with Assembly approval, would be the

instrument for the sale of ML&P to CEA before the voters. Becky noted that there would be another Assembly worksession later that day (at 2pm) with CEA that is open to the public. It was suggested that CEA should be presenting more details on the financial implications of the sale.

As Becky provided an overview of the CEA presentation, Mark Johnston explained that Chugach will pay approximately \$170 million for ML&P's equity and will make annual acquisition payments of approximately \$170 million (net present value based on 5% discount rate) over 30 years. The net present value discount rate is based on the assumed average cost of debt.

Shirley Nelson inquired as to how is Chugach going to pay an equivalent of MUSA when ML&P is not allowed to pay a dividend? Mark explained that ML&P currently pays MUSA (equivalent to payment in lieu of property taxes). The dividend is separate from MUSA and ML&P was restricted from paying the dividend by RCA effective January 2016, but not from paying MUSA. Shirley followed-up asking for some clarification in regards to the RCA's previous finding that ML&P's equity would drop because of building plant 2A? Mark responded the RCA suggested ML&P's equity "was impaired or could become impaired" and restricted ML&P from paying a dividend to MOA. While other Railbelt utilities have a debt-to-equity ratio less favorable than ML&P, those utilities are not restricted from paying dividends. Mark suggested to the BAC that the RCA is likely to focus on "the public interest and price of the acquisition" when reviewing this transaction. Becky reminded the committee that Chugach will make annual acquisition payments and make payments in lieu of taxes (PILTs) which will replace ML&Ps MUSA payments to the MOA.

Jon Watkins inquired if the sale would lower the rates to customers. Mark responded that Chugach has committed to not increasing "base rates" as a result of this transaction for either ML&P legacy or current Chugach customers. Mark noted Chugach is expected to provide more financial information at the 2pm worksession today.

Karl von Lührte referenced page 13 from the Chugach presentation in regards to the 30-year chart referencing the PILT and the annual acquisition payments, specifically will these payments go into the Municipal Trust? Mark Johnson stated if the initial \$170 million equity payment goes into the Municipal Trust the current return of 5% will generate approximately \$8.5 million in annual dividends. He further explained there were two amounts approximating \$170 million

each (up-front equity and the annual acquisition payment), the first is cash that can be deposited in the MOA trust which will provide a return through interest earned on the trust investment and the second would be annual acquisition payments made to the Municipality over 30 years.

Chair Al Tamagni asked which ML&P properties are involved in the proposed sale? Ship Creek Campus? Mark replied that Chugach is initially proposing to acquire all ML&P properties, including the Ship Creek properties. That said, the parties have agreed that Chugach may determine that some of the Ship Creek Campus is surplus to their needs and exclude these properties from the sale after adjusting the sales price (potentially \$10 to \$20 million). Some of the properties excluded may be leased from the MOA for a period of 3 to 5 years. Al inquired if any excess property could be used by the MOA to provide help for the homeless? Mark explained if the properties are excluded from the sale and effectively returned to the MOA they would be available for use, including to address homeless issues.

A BAC member asked how any existing lawsuit might be relevant to the transaction, referring to Providence Hospital's intervention in ML&P's rate case or any employee lawsuits. Mark explained ML&P is not a party to any lawsuit at this time, except for property claim related to the removal of two trees. Claimant is seeking \$5,000.

Shirley commented whether there are guarantees that rates will remain the same? Whether the MOA will let the public know how the money is going to be spent? What happens after 30 years? The commission was reminded that the Chugach proposal states "base rates of both utilities" will not be raised as a result of this transaction and that the money received from Chugach can only be used to pay off municipal debt and/or be put into the MOA Trust. The Municipality has historically used interest earned from the Trust; that started with the sale of the Anchorage Telephone Utility (ATU), to support public services.

Joe Riggs inquired why Chugach and not another utility? Mark responded that the MOA commissioned an independent analysis to determine the value of ML&P. Mark reminded the BAC that the Assembly started this process by instructing ML&P and Chugach to explore a merger. As a result of that public suggestion other parties expressed interest in acquiring ML&P. Those interested parties were asked to provide a written document, including a price they would be will to pay. Joe followed with his concern that if the sale goes through, he wanted

to know more about the sale's effect on tax assessments and why there would be no reduction in staff and what about the labor agreements? Mark explained the proposed acquisition provided PILT to replace MUSA paid by ML&P, which should ensure property taxes do not increase. He further discussed Chugach's decision not to lay off employees, but to address staff reductions through attrition. Both utilities experience annual attrition rates of approximately 4 to 5 percent and frequently experience difficulty filling open positions. As an example, ML&P has had a position open for 2 years for a meter installer and remover and not been able to fill it. Lastly, Chugach and the IBEW have negotiated a "transition agreement" to address the combination of the different labor agreements.

Jon Watkins stated that it is important not to hand-cuff the company – let the RCA weigh-in on any restrictions on the proposed merger of ML&P and Chugach.

Mark explained all offers were compared using net present value. Based on that comparison Chugach's offer was very competitive. Mark reminded the BAC that all other expressions of interests are covered by non-disclosure agreements (NDAs). The Administration can't share what other parties proposed as they have refused to release the MOA from the terms of the NDAs. The BAC then recognized that the Administration was not withholding information without cause; that the Administration had inquired of the other bidders if their respective proposed bids could be released, and that the Administration's request to make the other bidder information available was subsequently denied.

Shirley Nelson asked about what exactly the intended proceeds would be used for? Lance replied that the basic approach would be to apply the proceeds as illustrated in Chugach's presentation; a significant portion of the proceeds would be to retire debt, another share would be used to add to the MOA Trust Fund and a third portion would be anticipated annual payments for 30-years from Chugach to the Municipality.

The presentation by Becky then transitioned to her providing a short version of the presentation she previously provided to the Assembly. She presented the structure for sale of a municipal utility provided by current Municipal Code and Municipal Charter, and using the sale of ATU as an example. She cited and illustrated in her presentation (16.02 Disposal of Utilities, Sec 13.11 Trust Fund A1-3). She then explained the proposed new path which would be accomplished by

voter approval of a charter amendment directing a sale of ML&P to CEA on certain set terms, which would also go directly to the voters for approval.

Becky's presentation further explained the structure and impact of AO2018-1(S) and the proposed ballot proposition which will go to the voters if the assembly approves the ordinance.

Shirley suggested to the committee that it would be difficult to make a recommendation on the proposed sale of ML&P today because we don't all the information about the Charter and other factors on the sale at this time.

Al suggested that the sale of ML&P to Chugach seems to be a pretty good proposal for the public from many perspectives with the opportunity to reduce redundant equipment and that the Assembly should pursue this as a business prospective and ask the voters to decide.

Mark Johnston was asked if he would be willing to talk to the general public in forums to educate the public before it goes to vote. Mark responded that there will be many public meeting and lots of discussion. The first two will be the Assembly worksession that afternoon and a Public Hearing at the Assembly meeting on January 23rd. Mark added that the public process on this subject will only increase and amplify over the next two months. Mark stated ML&P sent information to all community councils regarding the Assembly worksession and the public hearing. He added that ML&P and Chugach welcome the opportunity to provide information to others, including community councils, and have been invited to attend several other community organizations prior to the April elections. Mark emphasized that ML&P's role in the coming weeks before the election will be to provide information on the sale and not contribute to any campaign, advertising or media. Chugach would probably have radio and television campaigns on the sale.

Karl and Shirley both expressed continued questions or concerns but were very interested in learning more. At this time they wanted more information and any assurances that:

1. There be no increase in the tax cap as a result of the sale of ML&P
2. To maximum extent possible we reduce and mitigate risks to the Municipality and taxpayers
3. To maximize efficiencies to reduce redundancies
4. Continued education and information to the public about proposed sale
5. Encourage more public interaction before the April 3rd election.

6. Provided a clearer explanation as to what the proceeds of the sale would be used for
7. Allowance for the purchaser to have flexibility in future labor transactions

Lance will send copies of Becky's presentation, Chugach's presentation to the Assembly worksession this afternoon, and the pertinent parts of the Charter to BAC.

Al asked that this subject be continued as an agenda item at February's meeting.

Shirley added that she thinks it is a good business move but wants to know how the MOA will use the money for the long term and more information on the RCA ruling regarding the ML&P dividend payment and MUSA payments.

In closing comments, commission members expressed their appreciation to both Becky and Mark for taking time, preparing and sharing the information today and looked forward to future discussion on the matter.

Adjournment at 11:16am