

Requested by: Chair of the Assembly at the
Request of the Mayor

Prepared by: Cynthia M. Weed, Bond
Counsel

K&L Gates LLP

For Reading: January 31, 2012

CLERK'S OFFICE

APPROVED

Date: 2-14-12

MUNICIPALITY OF ANCHORAGE, ALASKA
ORDINANCE No. 2012-15

AN ORDINANCE OF THE MUNICIPALITY OF ANCHORAGE, ALASKA,
PROVIDING FOR, AUTHORIZING AND APPROVING THE ISSUANCE OF
SUBORDINATE LIEN ELECTRIC REVENUE NOTES FOR THE MUNICIPALITY
IN ONE OR MORE SERIES IN THE AGGREGATE PRINCIPAL AMOUNT OF
NOT TO EXCEED \$300,000,000 FOR THE PURPOSE OF PROVIDING FUNDS
TO FINANCE CERTAIN CAPITAL PROJECTS.

WHEREAS, the Municipality of Anchorage, Alaska (the "Municipality"), owns,
operates and maintains an electric utility system (hereinafter defined as the
"System"); and

WHEREAS, the facilities of the System are in need of upgrades, including the
acquisition and installation of certain electric property and equipment (hereinafter
defined as the "Projects"); and

WHEREAS, the Municipality has outstanding the revenue bonds described with
particularity on Exhibit A, which have a senior lien on the electric revenues of the
Municipality (defined on Exhibit A as the "Outstanding Senior Lien Bonds"); and

WHEREAS, the Constitution and statutes of the State of Alaska and Article XV of
the Home Rule Charter of the Municipality permit the Municipality to issue revenue
bonds payable out of the revenues of the System without ratification by an
election; and

WHEREAS, each of the ordinances that authorized the issuance of the
Outstanding Senior Lien Bonds defined on Exhibit A permit the Municipality to
issue revenue bonds in the future subordinate to the Outstanding Senior Lien
Bonds; and

WHEREAS, the Municipality has determined to establish a short-term loan
program to meet the System's additional financial needs; and

WHEREAS, the Municipality now deems it to be in the best interest of the
inhabitants of the Municipality to provide for the financing of the Projects by the
issuance of one or more series of subordinate lien electric revenue notes herein

1 authorized (hereinafter defined as the "Notes") with an aggregate principal amount
2 of not to exceed \$300,000,000; and
3

4 **WHEREAS**, it is necessary to establish the form and manner of sale of such
5 revenue notes by ordinance; now, therefore,
6

7 **THE ANCHORAGE ASSEMBLY ORDAINS:**
8

9 **Section 1. Purpose.** The purpose of this ordinance is to approve and provide
10 for the issuance and sale of not to exceed \$300,000,000 of subordinate lien
11 electric revenue notes, which may or may not be in the form of commercial paper,
12 to provide moneys to pay and refinance the costs of the Projects (hereinafter
13 defined), to pay costs of issuance, to capitalize interest, to provide for reserves
14 and to fix the form, certain covenants and manner of sale for said revenue notes.
15

16 **Section 2. Definitions.** As used in this ordinance, unless a different meaning
17 clearly appears from the context:
18

19 ***Assembly*** means the general legislative authority of the Municipality, as
20 the same may be constituted from time to time.
21

22 ***Charter*** means the Anchorage Municipal Charter as the same may be
23 amended from time to time.
24

25 ***Chief Fiscal Officer*** means the chief fiscal officer of the Municipality
26 appointed and confirmed pursuant to Section 5.05 of the Charter.
27

28 ***Dealer(s)*** has the meaning given such term in the Trust Agreement.
29

30 ***Dealer Agreement(s)*** means the dealer agreement(s) for each series of
31 the Notes between the Municipality and the Dealers entered into pursuant
32 to the terms of Section 6 of this ordinance.
33

34 ***Electric Utility Fund*** means the special fund of that name created by
35 Section 12 of Ordinance No. AO 83-60(S).
36

37 ***Gross Revenues*** means all rates and charges and other income, in each
38 case derived by or for the account of the Municipality from the ownership,
39 leasing or operation of the System, except interest received and profits
40 derived from the investment of moneys other than moneys in the Electric
41 Utility Fund, including moneys in the Operating Reserve Fund.
42

43 ***Municipality*** means Anchorage, Alaska, a municipal corporation organized
44 and existing under the Constitution and laws of the State of Alaska.
45

1 **Note** or **Notes** means any of the subordinate lien electric revenue notes of
2 the Municipality the issuance and sale of which are approved herein.

3
4 **Operating Reserve Fund** means the Electric Utility Operating Reserve
5 Fund established by Section 15 of Ordinance No. AO 83-60(S).

6
7 **Outstanding Senior Lien Bonds** means the senior lien electric revenue
8 bonds identified in Exhibit A of this ordinance.

9
10 **Projects** means the improvements made and to be made to the System,
11 as approved in Section 3 of this ordinance.

12
13 **Subordinate Lien Note Fund** means the special fund designated as the
14 "Anchorage Subordinate Lien Electric Revenue Note Fund" established
15 pursuant to the Trust Agreement.

16
17 **System** means the existing electric utility system of the Municipality as the
18 same may be added to, improved and extended for as long as any of the
19 Bonds are outstanding, but shall not include such generation, transmission
20 and distribution facilities that may be hereafter purchased, constructed or
21 otherwise acquired by the Municipality as a separate electric utility system,
22 the revenues of which may be pledged to the payment of bonds issued to
23 purchase, construct or otherwise acquire and improve such separate
24 system.

25
26 **Trust Agreement** means each agreement(s), whether designated as trust
27 agreement or otherwise, between the Municipality and the Trustee, with
28 respect to each series of the Notes.

29
30 **Trustee** means the financial institution selected by the Chief Fiscal Officer
31 to perform the duties of the authenticating agent, paying agent and registrar
32 under this ordinance and the Trust Agreement.

33
34 **Section 3. Authorization of Commercial Paper Program.** The Municipality
35 hereby authorizes the issuance and sale of not to exceed \$300,000,000 of
36 subordinate lien electric revenue notes in one or more series and/or subseries (the
37 "Notes") to be issued from time to time (the "Program"). The terms of the Program
38 shall be set forth in more detail in an agreement (herein referred to as the "Trust
39 Agreement") to be entered into between the Municipality and a banking institution
40 (the "Trustee"). The Notes shall be designated as provided in the Trust
41 Agreement, and be subject to the terms approved by the Chief Fiscal Officer, as
42 set forth in the Trust Agreement.

43
44 The Notes shall be deemed to mature on the date(s) and principal
45 amount(s) set forth and approved in the Trust Agreement approved by the Chief
46 Fiscal Officer pursuant to Section 6 of this ordinance; provided that the final

1 maturity of all Notes may not be later than April 1, 2022. The Notes shall be sold
2 to a financial institution or marketed by one or more brokerage firms acting in the
3 capacity of dealer(s) (the "Dealer") under the terms of dealer agreement(s) (the
4 "Dealer Agreement"). The Notes shall be issued at such times, be sold to such
5 purchasers at such prices, bear interest, mature on such business days and
6 otherwise have such terms and conditions as shall be determined by the Chief
7 Fiscal Officer in concert with the financial institution purchasing the Notes or with
8 the Dealer in accordance with the Dealer Agreement(s).

9
10 The proceeds of the Notes shall be used to pay or to reimburse the
11 Municipality for the costs of the certain upgrades, including the acquisition and
12 installation of certain electric property and equipment, to the facilities of the
13 System undertaken as a part of the capital improvement plans (collectively, the
14 "Projects") as the same may be described in more detail in the Trust Agreement;
15 to refinance outstanding Notes, to fund or provide for reserves; to capitalize
16 interest on a portion of the Notes; and to pay costs of issuance.

17
18 The aggregate principal amount of Notes Outstanding under this ordinance
19 and the Trust Agreement at any time or from time to time shall not exceed
20 \$300,000,000. The Notes shall be payable in the manner and from such fund or
21 funds and shall be secured all as provided in the hereafter authorized Trust
22 Agreement.

23
24 **Section 4. Form of Notes.** The Notes shall be in substantially the following form
25 with such additions and modifications as shall be appropriate to reflect the final
26 negotiated terms of the Notes.

27
28 UNITED STATES OF AMERICA
29 No. _____ \$ _____
30 STATE OF ALASKA
31 ANCHORAGE, ALASKA
32 SUBORDINATE LIEN ELECTRIC REVENUE NOTE, 2012[(COMMERCIAL
33 PAPER)]
34 SERIES [A][B][Additional Designations]
35 Master Note
36
37 MATURITY DATE: Not later than _____
38
39 REGISTERED OWNER: CEDE & Co.
40
41 PRINCIPAL AMOUNT: TOGETHER WITH ALL OTHER NOTES
42 OUTSTANDING NOT EXCEEDING THREE
43 HUNDRED MILLION AND NO/100 DOLLARS
44 (\$300,000,000)
45

1 Anchorage, Alaska (the "Municipality"), a municipal corporation of the State
2 of Alaska, hereby acknowledges itself to owe and for value received promises to
3 pay to the Registered Owner identified above, or its registered assigns, solely out
4 of the special fund of the Municipality known as the "Anchorage Subordinate Lien
5 Electric Revenue Note Fund" (the "Note Fund") created by the Trust Agreement
6 on the Maturity Date identified above, the Principal Amount indicated above or so
7 much thereof as shall have been advanced hereunder and remain outstanding
8 and to pay interest thereon, at the rate determined as herein provided at the rates
9 and from and on the dates shown in the records of the Municipality and the
10 Trustee. Payments of principal of and interest on this note shall be made as
11 provided in The Depository Trust Company Operational Arrangements
12 Memorandum dated December 12, 1994, as amended from time to time and
13 referred to in the Blanket Issuer Letter of Representations dated July 1, 1995,
14 between the Municipality and The Depository Trust Company (together, the "Letter
15 of Representations") for so long as this note is held in book entry only form.
16 _____, _____, _____ has been appointed
17 as the [trustee] (authentication agent, paying agent and registrar) for the notes of
18 this issue (the "Trustee"). Capitalized terms used in this Note have the meanings
19 given such terms in the Trust Agreement between the Municipality and the
20 Trustee dated _____, 2012 (the "Trust Agreement"). Interest on this Note
21 shall accrue as provided in the Trust Agreement.
22

23 This note is issued pursuant to the Constitution and statutes of the State of
24 Alaska and the Home Rule Charter and duly adopted ordinances and resolutions
25 of the Municipality, including particularly, Ordinance No. AO 2012-____ of the
26 Municipality (the "Note Ordinance") and the [Trust Agreement] for the purpose of
27 paying or reimbursing the costs of certain capital projects and to pay costs of
28 issuance. The definitions contained in the Note Ordinance shall apply to
29 capitalized terms contained herein.
30

31 The Municipality does hereby pledge and bind itself to set aside out of
32 Gross Revenues and the money in the Electric Utility Fund and to pay into the
33 Note Fund the various amounts required by the Note Ordinance and the Trust
34 Agreement to be paid into and maintained in said fund all within the times
35 provided in the Note Ordinance and the [Trust Agreement]. The Municipality has
36 further pledged and bound itself to pay into such Electric Utility Fund, as collected,
37 all Gross Revenues.
38

39 The pledge of Gross Revenues and moneys in the Electric Utility Fund
40 contained herein and in the Note Ordinance and [Trust Agreement] may be
41 discharged by making provision, at any time, for the payment of the principal of
42 and interest on this note in the manner provided in the Trust Agreement.
43

44 The amounts so pledged to be paid out of said Electric Utility Fund into the
45 Note Fund are hereby declared to be a lien and charge upon the money in the
46 Electric Utility Fund and Gross Revenues superior to all other charges of any kind

1 or nature except Operating Expenses, and subordinate to the lien and charge
2 thereon for amounts pledged to the payment of Outstanding Senior Lien Bonds,
3 and equal in lien to any subordinate lien electric revenue bonds of the Municipality
4 issued in the future on a parity therewith and herewith.
5

6 It is hereby certified that all acts, conditions and things required by the
7 Constitution and statutes of the State of Alaska and the Home Rule Charter,
8 resolutions and ordinances of the Municipality to be done precedent to and in the
9 issuance of this Note have happened, been done and performed.
10

11 IN WITNESS WHEREOF, the Municipality of Anchorage, Alaska, has
12 caused this Note to be executed with the manual or facsimile signature of its
13 Mayor or Municipal Manager and to be attested with the manual or facsimile
14 signature of the Clerk or Deputy Clerk and the official seal of the Municipality to be
15 impressed, imprinted or otherwise reproduced hereon, this ____ day of
16 _____, 2012.
17

18 MUNICIPALITY OF ANCHORAGE,
19 ALASKA
20

21
22 By /s/ manual or facsimile signature
23 Mayor/Municipal Manager
24

25 Attested:
26

27 /s/manual or facsimile signature
28 Municipal Clerk/Deputy Clerk
29

30 (Form of Certificate of Authentication)
31

32 Date of Authentication:
33

34 This Note is one of the Municipality of Anchorage, Alaska, Subordinate Lien
35 Electric Revenue Notes, 2012 [(Commercial Paper)], Series [A][B][additional set
36 designations], described in and issued pursuant to the within mentioned Note
37 Ordinance.
38

39 _____,
40 as [Trustee]
41

42
43 By _____
44 Authorized Signer
45
46

1 In the event the Notes are no longer held in book-entry only form, the form
2 of Notes may be modified to conform to printing requirements and the terms of
3 this ordinance and the Trust Agreement.
4

5 **Section 5. Execution of Notes.** The Notes of each series shall be executed on
6 behalf of the Municipality with the manual or facsimile signature of the Mayor or
7 Municipal Manager, attested with the manual or facsimile signature of the
8 Municipal Clerk or Deputy Clerk of the Municipality and authenticated by the
9 manual signature of an authorized representative of the Trustee. The official seal
10 of the Municipality shall be impressed or imprinted or otherwise reproduced on
11 each Note. In case any of the officers who shall have signed, attested or
12 registered any of the Notes shall cease to be such officer before such Notes have
13 been actually issued and delivered, such Notes shall be valid nevertheless and
14 may be issued by the Municipality with the same effect as though the persons who
15 had signed, attested or registered such Notes had not ceased to be such officers.
16

17 **Section 6. Authorization of Documents.** In order to implement the Program, the
18 Chief Fiscal Officer is hereby authorized and delegated the authority to select a
19 financial institution to act as the Trustee and to negotiate the final terms of the
20 Trust Agreement. The Chief Fiscal Officer is hereby further authorized to select a
21 financial institution or one or more Dealers at any time during the course of the
22 Program and to negotiate the terms of the Dealer Agreement(s). The Notes may
23 be secured by a letter of credit, bond insurance and/or a liquidity facility in the
24 form of a standby bond purchase agreement. The Chief Fiscal Officer is
25 authorized and delegated the authority to select the provider(s) of credit support
26 for the Program during the course of the Program and to negotiate the terms of
27 such credit support and execute credit support documents, including
28 reimbursement notes, at such times and under terms deemed beneficial by
29 her/him. The Trustee, Dealers and credit support providers may be replaced
30 during the Program at the option of the Chief Fiscal Officer. The Chief Fiscal
31 Officer is further authorized to approve offering memoranda and all other
32 documentation necessary and desirable in order to implement the Program.
33

34 **Section 7. Effective Date.** This ordinance shall be effective immediately upon
35 passage and approval by the Assembly.
36

37 PASSED AND APPROVED by the Assembly of the Municipality of Anchorage this
38 14th day of February, 2012.
39

40
41 By Debbie Ossander
42 Chair of the Assembly

43 ATTEST:

44 [Signature]
45
46 Municipal Clerk

EXHIBIT A

MUNICIPALITY OF ANCHORAGE OUTSTANDING BONDS

The Municipality has outstanding the following described electric revenue bonds having a senior lien on the revenues of the System:

Authorizing Ordinance	Bond Designation	Date of Bonds	Original Principal Amount	Principal Amount Outstanding (1/1/12)
AO 92-171(S) & AR 93-20	Senior Lien Refunding Electric Revenue Bonds, 1993 ("1993 Bonds")	January 1, 1993	\$ 67,715,000	\$ 9,730,000
AO 95-217(S)	Senior Lien Refunding Electric Revenue Bonds, 1996 ("1996 Bonds")	December 1, 1995	\$ 48,855,000	\$ 30,975,000
AO 2005-110	Senior Lien Electric Revenue Refunding Bonds, Series 2005A ("2005 Bonds")	November 3, 2005	\$109,350,000	\$ 79,575,000
AO 2009-121	Senior Lien Electric Revenue Bonds, 2009 Series A (Tax-Exempt) ("2009 Series A Bonds")	December 3, 2009	\$ 15,240,000	\$ 15,240,000
AO 2009-121	Senior Lien Electric Revenue Bonds, 2009 Series B (Taxable Build America Bonds – Direct Payment) ("2009 Series B Bonds")	December 3, 2009	\$114,760,000	\$114,760,000

(the "Outstanding Senior Lien Bonds")

MUNICIPALITY OF ANCHORAGE, ALASKA

ORDINANCE No. 2012-15

AN ORDINANCE OF THE MUNICIPALITY OF ANCHORAGE, ALASKA, PROVIDING FOR, AUTHORIZING AND APPROVING THE ISSUANCE OF SUBORDINATE LIEN ELECTRIC REVENUE NOTES FOR THE MUNICIPALITY IN ONE OR MORE SERIES IN THE AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \$300,000,000 FOR THE PURPOSE OF PROVIDING FUNDS TO FINANCE CERTAIN CAPITAL PROJECTS.

Prepared by

K&L GATES LLP

**MUNICIPALITY OF ANCHORAGE
ORDINANCE No. 2012-15**

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* This Table of Contents and the cover page are for convenience of reference and are not intended to be a part of this ordinance.

MUNICIPALITY OF ANCHORAGE
Summary of Economic Effects - General Government

AO Number: 2012-15 Title: AN ORDINANCE OF THE MUNICIPALITY OF ANCHORAGE, ALASKA, PROVIDING FOR, AUTHORIZING AND APPROVING THE ISSUANCE OF SUBORDINATE LIEN ELECTRIC REVENUE NOTES FOR THE MUNICIPALITY IN ONE OR MORE SERIES IN THE AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \$300,000,000 FOR THE PURPOSE OF PROVIDING FUNDS TO FINANCE CERTAIN CAPITAL PROJECTS.

Sponsor: Mayor

Preparing Agency: Finance/Public Finance & Investments Division

Others Impacted: Municipal Light & Power (ML&P)

CHANGES IN EXPENDITURES AND REVENUES: (Thousands of Dollars)

	FY12	FY13	FY14	FY15	FY16
Operating Expenditures					
1000 Personal Services					
2000 Program Cost of Issuance*	500				
3000 Program Expenses*	2,628	3,504	3,504	3,504	3,504
4000 Debt Service*	70	242	424	539	539
5000 Capital Outlay					
TOTAL DIRECT COSTS:	3,198	3,746	3,928	4,043	4,043

ADD: 6000 Charge from Others

LESS: 7000 Charge to Others

FUNCTION COST:

REVENUES:

CAPITAL:

POSITIONS: FT/PT and Temp.

PUBLIC SECTOR ECONOMIC EFFECTS:

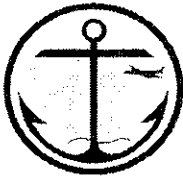
The above analysis is conservative. It shows total estimated interest expense, cost of issuance expense and program expenses, including bank fees. In reality, much of the interest expense associated with the capital improvements can be capitalized as an "ancillary charge necessary to place the asset in its intended location and condition for use", and later depreciated.

This analysis assumes ML&P actually spends the dollar amounts in their six-year capital improvement plan with a 90-day lag for actual expenditures; for those expenditures expected to be financed with debt.

PRIVATE SECTOR ECONOMIC EFFECTS:

The estimated interest expense, program expenses and cost of issuance is based upon market conditions as of November 15, 2011.

* Subject to market rates and timing



MUNICIPALITY OF ANCHORAGE

ASSEMBLY MEMORANDUM

No. AM 76-2012

Meeting Date: January 31, 2012

1 **From:** Mayor

2
3 **Subject:** AN ORDINANCE OF THE MUNICIPALITY OF ANCHORAGE,
4 ALASKA, PROVIDING FOR, AUTHORIZING AND APPROVING
5 THE ISSUANCE OF SUBORDINATE LIEN ELECTRIC REVENUE
6 NOTES FOR THE MUNICIPALITY IN ONE OR MORE SERIES IN
7 THE AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED
8 \$300,000,000 FOR THE PURPOSE OF PROVIDING FUNDS TO
9 FINANCE CERTAIN CAPITAL PROJECTS.

10
11 Passage of the attached ordinance would delegate authority to the Chief Fiscal
12 Officer to negotiate the terms of a Short-Term Borrowing Program (Program) in a
13 manner which is determined by her to be in the best interest of the Municipality.
14 The Chief Fiscal Officer, with the assistance of the Municipality's Financial
15 Advisor, is authorized to establish, implement and manage a Program for the
16 benefit of Municipal Light & Power ("ML&P") as an interim financing program until
17 such time that the outstanding balance of the Program's short-term notes are
18 taken out or refunded by long-term electric revenue bonds.

19 20 **BACKGROUND**

21 As of December 28, 2011, ML&P had \$4.4 million of unused bond proceeds from
22 their December 2009 debt issue and those funds are expected to be fully
23 expended in the first quarter of 2012. ML&P currently has a six-year capital
24 improvement plan that aggregates \$459 million of which \$296 million is expected
25 to be funded by revenue bonds. The Finance Department, Public Finance &
26 Investments Division staff has reviewed various financing alternatives, including
27 short-term borrowing programs, for ML&P's capital program with the Municipality's
28 Financial Advisor (First Southwest Company). The goal of these discussions has
29 been to determine a plan of finance that will provide the lowest cost of funds to
30 ML&P's ratepayers. The Program is expected to provide low cost funds during the
31 next six years for ML&P's capital improvement plan. It is anticipated that the
32 short-term notes will be refunded in 2015 and 2018, but no later than April 1,
33 2022, with long-term electric revenue bonds of ML&P to be secured by the
34 revenues of ML&P. Neither the short-term notes nor the long-term electric
35 revenue bonds of ML&P will be general obligations of the Municipality of
36 Anchorage.

37
38 A commercial paper program was started for the Port of Anchorage's Intermodal
39 Expansion Project in early 2008. This short-term interim financing has been

1 extremely successful and has resulted in over one million dollars in annual
2 savings for the Port and currently has \$40 million of commercial paper notes
3 outstanding.

4 5 **PLAN OF FINANCE**

6 Financing of ML&P's capital improvement program is expected to be obtained
7 from short-term debt, long-term debt, equity from operations and Beluga River
8 capital. The short-term debt will be refunded by the issuance of long-term electric
9 revenue bonds. The short-term notes and the long-term bonds will be secured by
10 revenues of ML&P and will not be a general obligation of the Municipality of
11 Anchorage. The Public Finance & Investments Division staff and First Southwest
12 Company staff have developed this plan of finance in conjunction with the
13 Municipality's Bond Counsel.

14
15 The Public Finance & Investments Division staff and First Southwest Company
16 staff will solicit the marketplace for proposals for a short-term borrowing program
17 for ML&P. The determination of the appropriate Program will be based upon the
18 responses to the solicitation, including which type of proposal is the most
19 appropriate Program as well as which proposal provides the lowest cost of funds
20 to ML&P's ratepayers. A Short-Term Borrowing Program is expected to be
21 established and in place by March 31, 2012.

22
23 Once bond proceeds from the 2009 debt issue are fully expended, short term
24 notes will be issued on a monthly basis to reimburse ML&P for the prior month's
25 capital expenditures that are expected to be financed by debt. On one or more
26 occasions during the term of the Program, the outstanding amount of short-term
27 notes will be refunded with long-term electric revenue bonds.

28 29 **COMMERCIAL PAPER NOTES**

30 Commercial Paper (CP) notes are a short-term debt instrument issued with a term
31 of not to exceed 270 days. These notes may be issued as taxable or as tax-
32 exempt. To keep the CP outstanding for periods longer than 270 days, the note
33 maturity is effectively refunded with the proceeds of a new note issue on the same
34 day of the maturity. Investors generally require a liquidity facility as security for the
35 notes. A liquidity facility provides funds to the issuer for the payment at maturity of
36 the notes in the event that the notes cannot be remarketed to new investors. The
37 liquidity facility provider provides funds until such time that the notes can be
38 remarketed. A liquidity facility can be provided by a commercial bank or by the
39 issuer of the notes, if there are sufficient funds available to the issuer.

40
41 CP is a frequently used financing tool for interim financing of capital projects and
42 construction programs and is usually refunded by the issuance of long-term debt,
43 as is planned for the ML&P CP. The current interest rate environment is
44 extremely favorable for this kind of financing. For example, in November 2011 the
45 Port CP notes had an interest rate of 0.22%. The cost of the \$75 million liquidity

1 facility required by the investors for the Port's CP notes is 0.95%. The all in cost
2 for the Port's CP program is approximately 2% and compares very favorably to the
3 estimated cost of funds of 4.82% for Port long-term revenue bonds, as of
4 November 2011. A 2.82% annual savings equaling \$1.128 million is achieved by
5 operating the Port's CP program on outstanding CP notes of \$40 million.

6
7 In the case of ML&P, although the amount of forecasted borrowing is greater, the
8 cost of a liquidity facility is expected to be less. From a credit risk perspective, the
9 capital market considers ML&P to be a stronger enterprise than the Port. This is
10 reflected in their very good long-term bond ratings, with ML&P rated "A+" from
11 both Standard & Poor's (S&P) and Fitch, and the Port rated "A" by S&P only.
12 Thus, banks that provide liquidity for CP programs will price liquidity for ML&P
13 more favorably than it has for the Port. Today, the cost for ML&P to secure a
14 liquidity facility for a CP program would be approximately 0.60%. The other fees
15 for a CP program for ML&P are comparable to the Port CP program so the all in
16 cost for ML&P's CP program could be approximately 1.65%. The cost of funds for
17 long-term revenue bonds for ML&P in November 2011 was estimated to be
18 4.60%.

19 20 **PROPOSED COMMERCIAL PAPER FINANCING FOR ML&P**

21 Assuming ML&P's debt-financed capital expenditures matches their proposed six-
22 year capital improvement plan and is financed with CP that grows from zero to
23 \$245 million in the first three years beginning April 2012; this CP program would
24 have an average annual outstanding balance of \$81.7 million over the three-year
25 period. Operating a CP program for ML&P with an average sized liquidity facility
26 of \$81.7 million and outstanding CP notes of \$81.7 million would result in an
27 average annual savings for ratepayers of approximately \$2.409 million for a three
28 year savings of \$7.228 million. At the end of three years we would consider
29 refinancing the outstanding balance of CP with long-term revenue bonds.

30
31 During the next three years, assuming that ML&P's forecasted capital
32 expenditures financed by debt remains unchanged, the CP program would grow
33 from zero to \$51.4 million. If the average annual outstanding balance of CP notes
34 is \$17.1 million and the average size of the Liquidity facility is \$17.1 million; the
35 average annual savings to the ratepayers could be \$505,433 for a three-year total
36 of \$1.516 million.

37
38 The six year total ratepayer savings under these assumptions could be \$8.7
39 million.

40 41 **ALTERNATIVE SHORT-TERM BORROWING PROGRAM –** 42 **DIRECT PLACEMENT NOTES**

43 Another commonly used short-term financing tool for interim financing of capital
44 projects and construction programs is a Direct Placement (DP) Program. A DP
45 Program is a borrowing in the form of short term notes placed directly with a

1 financial institution. The terms of DP notes are similar to those of a CP Program,
2 although there is no need for a liquidity facility since the financial institution or
3 commercial bank, that provides the liquidity in a CP Program, is the actual lender
4 or investor in a DP Program. The all in cost of funds can sometimes be less for a
5 DP Program than for a CP Program depending upon the credit of the borrower
6 and the interest rate environment.

7
8 **OVERVIEW OF THE CAPITAL IMPROVEMENT PLAN**

9 ML&P currently has a six year capital improvement plan that aggregates \$459
10 million of which \$296 million is expected to be funded by revenue bonds. ML&P is
11 at a point from a life cycle perspective where it must make significant generation
12 capital additions over the next few years. Currently, there is \$221 million in the
13 capital budget for new generation to replace aging generation infrastructure.
14 Modern generating units are much more efficient, allowing them to deliver more
15 energy for the same amount of fuel. In August 2008 ML&P entered into a
16 participation agreement with Chugach Electric Association to proceed with the
17 joint development, construction and operation of the Southcentral Power Project
18 (SPP). ML&P's estimated share of the cost of SPP is \$121.5 million. Other
19 general project categories of the capital improvement plan include production,
20 transmission, distribution and general plant.

21
22 **THE ADMINISTRATION RECOMMENDS APPROVAL OF AN ORDINANCE OF**
23 **THE MUNICIPALITY OF ANCHORAGE, ALASKA, PROVIDING FOR,**
24 **AUTHORIZING AND APPROVING THE ISSUANCE OF SUBORDINATE LIEN**
25 **ELECTRIC REVENUE NOTES FOR THE MUNICIPALITY IN ONE OR MORE**
26 **SERIES IN THE AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED**
27 **\$300,000,000 FOR THE PURPOSE OF PROVIDING FUNDS TO FINANCE**
28 **CERTAIN CAPITAL PROJECTS.**

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30 Prepared by: Ross Risvold, Public Finance & Investments Manager
31 Concurrence: Lucinda Mahoney, CFO
32 Concurrence: James Posey, General Manager ML&P
33 Concurrence: Dennis A. Wheeler, Municipal Attorney
34 Concurrence: George J. Vakalis, Municipal Manager
35 Respectfully submitted: Daniel A. Sullivan, Mayor