



**U.S. DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration
Office for Coastal Management**

April 16, 2020

Phillip A. Zavadil, City Manager
City of Saint Paul
PO Box 901
950 Gorbach Street
Saint Paul Island, Alaska 99660

Dear Mr. Zavadil:

In 1987, NOAA extended a Coastal Energy Impact Program (CEIP) loan to the City of St. Paul via a Tripartite Agreement between the city, NOAA, and the Alaska Municipal Bond Bank Authority. This loan was made in the amount of \$6,562,878.00 at an interest rate of 5% to fund a port system capital improvements project in St Paul. The loan is secured solely by a pledge of the net revenues of the port facilities earned from offshore energy and year-round fishing activities. Over the lifetime of this loan, the City of St. Paul has repaid \$3,064,084.22, including principal and interest. As of March 1, 2020, the outstanding balance due and owed on St. Paul's CEIP loan stands at \$6,005,878.00 in principal and \$2,083,581.77 in interest.

Historically, St Paul has encountered difficulties in making CEIP loan repayments because offshore oil and gas exploration and year-round fishing industries did not develop as predicted. The City of St. Paul subsequently relied on the seasonal Bering Sea opilio crab fishery as its primary source of revenue to repay the CEIP loan. Unfortunately, this fishery collapsed in 2000 and 20 years later it has still not recovered. Other efforts by the city to utilize the CEIP-funded facilities to produce revenue have come to naught.

Section 308 of the Coastal Zone Management Act (CZMA) authorized the Secretary of Commerce to make federal loans to assist coastal states with federally approved management programs (and local government in such states) to address needs arising from anticipated offshore and coastal energy development. To reduce the risk of default, the Secretary was authorized to provide repayment assistance to any coastal state or local government unable to meet its loan obligations because of inadequate revenues from coastal energy activity. Currently there are but three means by which the Secretary may offer a CEIP loanee repayment assistance. The Secretary may (i) modify the loan; (ii) refinance the loan; or (iii) recommend that Congress enact legislation to forgive the loan. NOAA and the City of St. Paul have utilized option (i) to restructure the loan in 2000, as well as put the loan on forbearance for ten years from 2005 to 2015. Neither of these efforts succeeded in enabling St Paul's CEIP loan to become financially viable.

Recently, NOAA has undertaken an extensive review of the financials of this loan and has concluded that St Paul's CEIP loan will never be able to be paid back in any reasonable time frame. The opilio crab

fisheries continue to show no indication of recovery, and no other substantial revenue sources have been identified. NOAA is therefore prepared to proceed with option (iii) and recommend to Congress that it enact legislation to forgive St Paul's CEIP loan. However, the current policy of the Department of Commerce (of whom NOAA is a part) is to proceed with this option only after the department has recovered all possible funds directly related to this loan.

Under the 4th Tripartite Amendment to St Paul's CEIP loan dated December 14, 2000, the city was required to set aside \$150,000 in a reserve fund. These funds were set aside and are still there based on NOAA's review of the city's annual financial statements and the City of St. Paul Quarterly CEIP Infrastructure Repairs Report for City Fund 522. These funds, which are the *only* municipal funds that can be linked directly to this loan, will need to be returned to NOAA. Once NOAA has recovered these funds, the agency will support and be in a position to move forward with a recommendation to Congress that the City of St Paul's CEIP loan be forgiven.

To make this payment you should submit the check to the Department of the Treasury's NOAA lockbox:

U.S. Department of Commerce – NOAA
P.O. Box 979008
St. Louis, MO 63197-9000
Ref: CZMF Loan 8-M01-02AB(11)

Alternatively, payment can be sent electronically via Fedwire or ACH (Automated Clearing House). Instructions for these options, along with contact information if you need assistance with them, are included as attachments.

We look forward to the city's cooperation in this matter so that we can finally resolve this loan. If you have any questions, please feel free to contact Dwight Reynolds of my staff at (240) 533-0751.

Sincerely,

John King
Chief, Business Operations Division
NOAA's Office for Coastal Management