

THIRD AMENDMENT TO LOAN AGREEMENT

This THIRD AMENDMENT TO LOAN AGREEMENT ("Amendment"), dated as of September ___, 2016, amends the LOAN AGREEMENT ("Loan Agreement") dated as of March 25, 2013, by and between the KENAI PENINSULA BOROUGH ("Lender"), an Alaska municipal corporation, and the CITY OF HOMER ("Borrower"), an Alaska municipal corporation.

R E C I T A L S

WHEREAS, by Ordinance 13-03(S)(2), adopted February 25, 2013, Borrower authorized the issuance to Lender of a Natural Gas Distribution Special Assessment Bond ("Bond") in a principal amount equal to the aggregate amount of all advances under the Loan Agreement, but not to exceed \$12,700,000, and the execution and delivery of the Loan Agreement; and

WHEREAS, Section 3.03 of the Loan Agreement provides that prepayments of assessments shall be applied to prepay the principal of the Loan, and upon any such prepayment the amortization of the principal of the Loan shall be adjusted so that each remaining scheduled payment of principal and interest on the Loan shall be in an equal amount; and

WHEREAS, adjusting the amortization of the principal of the Loan upon each prepayment is unnecessary and imposes an administrative burden; and

WHEREAS, because installments of principal and interest on the Loan are due only once a year, it would be sufficient to adjust the amortization of the principal of the Loan once for all prepayments made since the last installment payment immediately before the next installment is due.

NOW, THEREFORE, in consideration of the mutual covenants herein, the parties hereto covenant and agree as follows:

Section 1. Section 3.03 of the Loan Agreement is amended to read as follows:

Section 3.03 Prepayment.

(a) *Optional Prepayment.* The Borrower may prepay the outstanding principal of the Loan in whole or in part at any time in an amount equal to the principal amount of the Loan to be prepaid plus interest accrued thereon to the date of prepayment.

(b) *Mandatory Prepayment.*

(1) Prepayments of assessments shall be applied to prepay the principal of the Loan.

(2) Notwithstanding any other provision of this Agreement, Borrower and Lender agree that the total amount of assessments against condominium units in the District shall be reduced pursuant to the decision of the Superior Court in *Castner v. City of Homer, et al.*, Case No. 3HO-13-00038CI, and Borrower shall prepay principal of the Loan in an amount equal to the amount of such reduction. Borrower may make this prepayment from Free Main Allowance and other reimbursements that Borrower receives from ENSTAR Natural Gas Company, provided that immediately following such a prepayment the amount in the Reserve Fund will not be less than the Reserve Requirement.

(3) Notwithstanding any other provision of this Agreement, if the total amount of assessments against properties in the District is reduced due to action of the City Council of Borrower either (i) waiving the assessment of certain properties in the District that cannot be served by the natural gas distribution system, or (ii) recognizing subdivisions reducing the number of contiguous lots under common ownership by assessing only the reduced number of lots, Borrower shall prepay principal of the Loan in an amount equal to the amount of such reduction. Borrower may make this prepayment from Free Main Allowance and other reimbursements that Borrower receives from ENSTAR Natural Gas Company, and from any other legally available funding sources, provided that immediately following such a prepayment the amount in the Reserve Fund will not be less than the Reserve Requirement.

(4) Lender consents to Borrower's amendment of Borrower's Ordinance 13-03(S)(2) to permit Borrower to apply Free Main Allowance and other reimbursements that Borrower receives from ENSTAR Natural Gas Company in the manner described in the preceding two paragraphs.

(c) *Notice of Prepayment.* The Borrower shall give the Lender notice of any intended prepayment of the Loan not less than 10 nor more than 45 days prior to the date fixed for prepayment.

(d) *Loan Reamortization.* Not less than five days before the due date of each annual installment of principal and interest on the Loan, the amortization of the principal of the Loan shall be adjusted to take into account all prepayments of the outstanding principal of the Loan made since payment of the last annual installment of principal and interest, so that each remaining scheduled payment of principal and interest on the Loan shall be in an equal amount.

Section 2. Except as expressly amended herein, all terms and conditions of the Loan Agreement as originally executed and previously amended shall remain in full force and effect.

IN WITNESS WHEREOF, the Lender and the Borrower have caused this Amendment to be executed in their respective names all by their duly authorized officers, as of the date first set forth above.

LENDER: KENAI PENINSULA BOROUGH

By: _____
Mike Navarre, Mayor

ATTEST:

Johni Blankenship, Borough Clerk

BORROWER: CITY OF HOMER

By: _____
Mary K. Koester, City Manager

ATTEST:

Jo Johnson, City Clerk