


# Memo

**Thru:** Mark Gorman, Municipal Administrator  
**To:** City and Borough of Sitka Assembly  
**From:** Jay Sweeney, CFAO   
**Date:** October 13, 2014  
**Re:** Jarvis Street Diesel Improvements Project Budget

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Mayor McConnell and Assembly Members,

I wanted to ensure you were appropriately notified that, in a strict sense, the Jarvis Street Diesel Improvements Project was over budget at June 30, 2014.

As of June 30, 2014, the project had exceeded its \$15,643,675 budget by \$386,477, or 2.8%.

It is the intention of staff to seek a budget increase for this project, at a future Assembly meeting, once the full amount of additional funds is determined. The source of the additional funding will be interest earnings on electric revenue bond proceeds, whose expenditure has heretofore not been budgeted for.

In a broader sense, however, there are several procedural issues which staff will be also be bringing forward, for discussion and possible direction, at a future Assembly meeting. These procedural issues include the following:

- Budget execution policy and guidelines are contained as provisions of the City and Borough of Sitka Home Rule Charter (the Charter). As such, budget execution provisions in the Charter are quite broad and general in nature, especially in regards to capital projects. As mentioned before, the Charter does not define what an appropriation is. In addition, the Charter is not specific as to what procedures are to be followed when a capital project exceeds its authorized budget. In the case of a complex capital project such as the Jarvis Street turbine project, in which significant portions of the project are self-constructed, it would be extremely difficult to determine the exact point in which a project is exceeding its authorized budget. Furthermore, it would be imprudent and expensive to delay or halt a complex capital project while seeking a budget increase. With such a large investment already having been made, it would be illogical not to bring the project to completion.
- The Charter does not address how interest earnings on bond issuance proceeds are to be budgeted for and spent. Such interest earning can only be used to pay for debt service on the bonds, or, to finance infrastructure; they are not available to pay for normal operating costs.
- Finally, how much of a budget overrun is material and significant? If a complex capital project with a \$15 million plus budget has a \$1 budget overrun, for example, is it material and significant enough to warrant Assembly attention?

Given the procedural issues raised above, staff intends to make proposals for interpretative guidelines for Assembly approval. The intent of such interpretative guidelines will be to ensure that control over the expenditure of public funds remains with the Assembly while, at the same time, striving to strike the right balance between reporting and approval to ensure the Assembly is not being asked to deal with immaterial minutiae.

# Project Expense Performance Report

Fiscal-Year-to-Date And Life-to-Date To: 6/30/2014

Project Number	Description	Status	Budget	Expenses	Encumbrances	Balance	% Used
Project: 90646	Jarvis St Diesel Capacity Incr.	Active					
Sub Project: 0200	Electric Dept	Active					
Sub Project 0200 Total:			YTD \$0.00	\$2,442,549.01	(\$566,742.00)	(\$1,875,807.01)	+++
			LTD \$0.00	\$2,664,290.38	(\$350.00)	(\$2,663,940.38)	+++
Sub Project: 0220	Wastewater Dept	Active					
Sub Project 0220 Total:			YTD \$0.00	\$1,711.45	\$0.00	(\$1,711.45)	+++
			LTD \$0.00	\$1,711.45	\$0.00	(\$1,711.45)	+++
Sub Project: 2106	Construction	Active					
Sub Project 2106 Total:			YTD \$15,643,675.00	\$11,621,442.95	\$0.00	\$4,022,232.05	74%
			LTD \$15,643,675.00	\$13,364,500.50	\$0.00	\$2,279,174.50	85%
Project 90646 Total:			YTD \$15,643,675.00	\$14,065,703.41	(\$566,742.00)	\$2,144,713.59	86%
			LTD \$15,643,675.00	\$16,030,502.33	(\$350.00)	(\$386,477.33)	102%
<b>Grand Total:</b>			<b>YTD \$15,643,675.00</b>	<b>\$14,065,703.41</b>	<b>(\$566,742.00)</b>	<b>\$2,144,713.59</b>	<b>86%</b>
			<b>LTD \$15,643,675.00</b>	<b>\$16,030,502.33</b>	<b>(\$350.00)</b>	<b>(\$386,477.33)</b>	<b>102%</b>