

POSSIBLE MOTION

I MOVE TO approve Ordinance 2015-27 on first reading.

Memo

To : Assembly, City and Borough of Sitka

From: Mark Gorman, Administrator.



Date: March 4, 2015

Re: Request for Transfer From The Southeast Alaska Economic Development Fund to Electric Fund, Contingent Upon Passage of Amending Ordinance

Mayor McConnell and Assembly Members,

At the April 14 Assembly meeting, Administration will be putting forward an ordinance to amend Section 4.44 of the Sitka General Code, the Southeast Alaska Economic Development Fund, to restrict use of the Fund for Municipal purposes and to authorize transfers from the Fund in addition to loans.

The proposed ordinance states that any transfers from the Fund will be for purposes of promoting efficiency within government operations (for example, investing in new technology) or for lessening the fee and rate burden to be borne by our citizens.

As presented in previous Assembly meetings, our Electric Fund is on a course to not meet its required Rate Covenant, as set forth in its bonding ordinance, unless either (1) rates are substantially raised, (2) some sort of temporary rate subsidization is supplied, or (3) some combination of both.

Accordingly, Administration is recommending, contingent upon passage of the proposed ordinance amending the code governing the Southeast Alaska Economic Development Fund, that an amount of \$2,500,000 be transferred from the Fund into the Electric Fund Rate Stabilization Fund, effective no later than June 30, 2015, as to be accomplished in FY2015. This detail is important in ensuring that the Rate Covenant is met in FY2016.



Memorandum

April 8, 2015

To: Mark Gorman, Municipal Administrator
From: Christopher Brewton, Utility Director
Subject: **Project Scoping – Installation of Additional Interruptible Electric Boilers in CBS Buildings**

Introduction

Installing interruptible electric boilers in CBS owned buildings currently heated by oil fired boilers is an opportunity for electric load growth. Three interruptible electric boilers have previously been installed in buildings owned by CBS. To qualify as an interruptible load, the electric boilers must have a backup system that can provide heating when the utility demand requires that the electric boiler be turned off (interrupted). At the three facilities with interruptible electric boilers already installed, the preexisting oil fired boilers have remained in place to provide redundancy.

Installing an interruptible electric boiler, as opposed to a fixed electric heating system, provides the additional benefits of:

- system redundancy,
- a lower (interruptible) electric rate for the consumer, and
- flexibility for the utility in the event of significant load growth in the future.

Due to the requirement for a redundant heating system, disadvantages to installing an interruptible electric boiler, as opposed to a fixed electric heating system include:

- additional maintenance costs and
- additional space requirements.

The objective of this memo is to summarize preliminary scoping efforts as to the suitability of CBS owned buildings for installation of interruptible electric boilers.

Methodology

All buildings owned by CBS were considered for installation of additional interruptible electric boilers. Diesel consumption estimates were obtained from the CBS Diesel Fuel contract documents. Please note that the CBS Diesel Fuel contract is based off of historic fuel consumption, which is greater than recent years due to facility upgrades and warmer weather.

Therefore the electric consumption and revenue will likely be less than described below during warmer years, such as 2014.

Estimated diesel consumption was converted to equivalent annual electric usage, assuming an oil heating efficiency of 70%. Information regarding the three existing interruptible electric boilers was used to estimate the potential boiler footprint and the scale of facility upgrades required to accommodate a new electric boiler. Electric Department staff then performed site visits and met with building maintenance staff at the five facilities with the largest heating loads that do not already have heating system conversions or upgrades planned. The largest systems were selected because the payback period on installation costs are likely to be shorter for larger systems.

Results and Discussion

Given the information obtained during the site visits, the Electric Department assigned buildings owned by CBS an ease of installation level, with "1" being the easiest locations to install an interruptible electric boiler and "3" being the locations requiring the most facility and distribution system modifications. The perceived ease of installation was based upon the space available near the existing boiler(s), the proximity to electric service and the estimated distribution system upgrades required to serve the additional load. Table 1 includes a summary of buildings owned by CBS that initial scoping indicates may be suitable for installation of interruptible electric boilers.

Table 1. City Building Heating Energy Usage and Estimated Equivalent Electric Revenue.

Priority	Building	Approximate Annual Usage (gallons)	Equivalent Annual Usage (MWh)	Equivalent Annual Electric Revenue
1	Baranof Elementary School	25,000	710	\$ 72,900
2	Keet Gooshi Heen Elementary School	30,000	852	\$ 87,500
	Airport Terminal	20,000	568	\$ 58,300
	Fire Hall	9,600	273	\$ 28,000
3	Public Services Complex: Main Building	8,500	241	\$ 24,800
Totals		93,100	2,644	\$ 271,500

Preliminary discussions with Electric Department staff indicate that all new electric boilers will require transformer upgrades. Keet Gooshi Heen Elementary School is expected to be the only location that would also require a feeder upgrade.

The three existing interruptible electric boilers are maintained by Electric Department staff. If additional electric boilers are installed, additional Electric Department staffing will likely be necessary to perform required maintenance.

Sitka Community Hospital

Sitka Community Hospital has two oil-fired boilers and two high-pressure steam boilers. The facility relies heavily on the high-pressure steam boilers, which are responsible for the majority of the facility's diesel consumption. High-pressure electric boilers are expensive to install and maintain. A high-pressure electric boiler would also require significant electric service upgrades. During preliminary scoping, conversion to an interruptible electric boiler was deemed to likely be cost prohibitive, due to the complexity of both installation and maintenance.

Harrigan Centennial Hall, Kettleson Memorial Library, Wastewater Treatment Plant

Heat pump installations are already planned for these three facilities.

Sitka Animal Shelter, Public Services Complex Garage and Lineman's Shop, Other Small City Facilities

Small facilities owned by the city are excellent candidates for electric boilers or heat pumps. The heating load of small facilities likely do not justify the cost of installing and maintaining redundant (interruptible) systems.

Historical Interruptible Sales

The following table indicates revenue produced by the three (3) existing systems presently in service from June 2012 – present, with the exception of the Sitka High School where that facility was on line from March 2014 to present. These periods include times when interruptibles were off line for maintenance or curtailment, such as preparing for and during the recent Blue Lake Generation outage.

Location	Electric Consumption (kWh)	Revenue (\$)	Displaced Fuel Oil (gal)
City/State Building	976,800	\$97,196.87	25,705
Blatchley Middle School	2,252,160	\$238,094.89	59,267
<u>Sitka High School</u>	<u>1,589,400</u>	<u>\$157,529.22</u>	<u>41,826</u>
Total	4,818,360	\$492,820.98	126,798

CITY AND BOROUGH OF SITKA

ORDINANCE NO. 2015-27

AN ORDINANCE OF THE CITY AND BOROUGH OF SITKA, ALASKA AMENDING SITKA GENERAL CODE CHAPTER 4.44, "SOUTHEAST ALASKA ECONOMIC DEVELOPMENT FUND"

1. CLASSIFICATION. This ordinance is of a permanent nature and is intended to become a part of the Sitka General Code.

2. SEVERABILITY. If any provision of this ordinance or any application to any person or circumstance is held invalid, the remainder of this ordinance and application to any person or circumstances shall not be affected.

3. PURPOSE. The purpose of this ordinance is to amend the Sitka General Code pertaining to the Southeast Alaska Economic Development Fund by permitting a portion of the corpus of the Fund to be permanently transferred to another fund of the City and Borough of Sitka without requirement for repayment, and, to establish guidelines for participation loans and loan guarantees to private enterprise.

4. ENACTMENT. NOW, THEREFORE, BE IT ENACTED by the Assembly of the City and Borough of Sitka that Section 4.44 of the Sitka General Code is amended to read as follows (deleted language is stricken and new language us underlined):

Chapter 4.44
SOUTHEAST ECONOMIC DEVELOPMENT FUND

Sections:

- 4.44.010 Establishment.
4.44.020 Participation Loans to Private Enterprise
4.44.0530 Procedure for deciding upon applications for loan guarantees. Loans or Transfers to Other Municipal Funds
4.44.040 Repayments and Investment Earnings On The Fund Corpus

4.44.010 Establishment.

There shall be established a southeast economic development fund ("fund"), for qualifying private-sector loans and transfers to other Municipal funds, and, for financial institution participation loans to private enterprises.

Loans or transfers to other Municipal funds shall be for purposes of promoting the efficiency and effectiveness

41 of Municipal government, or, for improvements which shall lessen rate and fee burdens on citizens. Loans to
42 private enterprises shall be for purposes of expanding the Municipality's economic base, generating commerce
43 external to Sitka, and creating family wage jobs in Sitka. Only the assembly can authorize any loan or transfer
44 from this fund.

45 **4.44.020 Participation Loans And Loan Guarantees To Private Enterprise**

46 A. Any loan or loan guarantee to a private-enterprise shall be a participation loan in conjunction with a financial
47 institution. No loans shall be made by the Fund directly to a private enterprise.

48 B. Proposals for participation loans or loan guarantees shall be prepared by the participating financial
49 institution and presented to the Assembly for approval by the participating institution.

50 C. The Municipal Administrator shall be responsible for developing and administrating administrative policies
51 governing participation loans and loan guarantees to private enterprise

52 **4.44.0530 Procedure for deciding upon applications for loan guarantees. Loans and**
53 **Transfers to Other Municipal Funds**

54 A. Application forms can be obtained from the finance director for loans from this fund. Completed application
55 forms will be submitted to the assembly.

56 B. The finance director shall certify in writing the following to the municipal administrator and assembly
57 regarding any submitted application form:

58 1. The funds to make the loan are available and shall be accounted for in future reports to the
59 assembly;

60 2. The remaining fund balance if the full amount of the loan is awarded; and

61 3. The applicant has all necessary licenses and permits to do business with the city and
62 borough, and the applicant is not delinquent on any of their accounts with the city and borough,
63 including sales taxes, property taxes, hotel, motel, bed and breakfast transient room rental tax,
64 and utility payments.

65 GA. Any proposed loan or transfer from the Fund to another Municipal fund shall be proposed to the Assembly
66 by the Administrator with justification as to the benefits to be derived from the loan or transfer. The assembly

67 shall decide whether to approve the loan or transfer, including whether to grant the full amount requested or a
68 lesser amount, and whether to set any conditions.

69 DB. Any loan granted from the Fund to another Municipal fund requires interest to be charged at a rate to be
70 determined by the assembly.

71 C. This is a revolving fund, ~~with loan repayments and interest earned on loans deposited in the fund.~~

72 **4.44.040 Repayments and Interest Earnings on the Fund Corpus**

73 A. All loan repayments, including both interest principal repayments, shall be re-deposited into the Fund.

74 B. Investment earnings on the undisbursed corpus of the Fund shall be transferred to the Building
75 Maintenance Fund.

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78 5. **EFFECTIVE DATE.** This ordinance shall become effective on the day after
79 the date of its passage.

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81 **PASSED, APPROVED, AND ADOPTED** by the Assembly of the City and Borough
82 of Sitka, Alaska this 12th Day of May, 2015.

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Mim McConnell, Mayor

87 **ATTEST:**

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92 Sara Peterson, CMC
93 Municipal Clerk
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