

Should this item be pulled from the consent agenda the following motion is suggested:

**POSSIBLE MOTION**

**I MOVE TO** approve Resolution 2016-14 on first and final reading.

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## MEMORANDUM

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**To:** Mayor McConnell and Members of the Assembly  
Mark Gorman, Municipal Administrator

**From:** Michael Harmon, P.E., Public Works Director  
Dave Longtin, P.E., Senior Engineer *DL*

**Reviewed:** Jay Sweeney, Chief Finance and Administrative Officer *JS*  
Shilo Williams, Deputy Environmental Superintendent *SW*  
Dan Tadic, P.E., Municipal Engineer *DT*  
Tori Fleming, Contract Coordinator *TF*

**Date:** August 17, 2016

**Subject:** Alaska Department of Environmental Conservation  
FY17 Municipal Matching Grant Application

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### Background

Each year, staff submits loan and grant questionnaires to the Alaska Department of Environmental Conservation (ADEC) Municipal Grants and Loans Program for priority water and sewer improvements. Questionnaires are competitively scored and ranked against other applicants statewide. For FY17, CBS's grant questionnaire for the South Lake and West DeGroff water and sewer improvements project scored well enough to be selected for funding. The grant request is for \$1,000,000, which is the maximum request allowed by the Municipal Matching Grant (MMG) program.

The next necessary step is to complete an MMG application for this project.

### Project need

This project will replace the water and sewer mains on Lake Street from the roundabout to DeGroff Street, and the mains on DeGroff Street from Lake to Monastery Street. These mains are more than 35 years old and are in need of replacement, as evidenced by the recent water main break on Lake Street shown on the attached photo. The 50-year-old 6" water main is also undersized, so we will replace it with a 12" line that will approximately quadruple the flow capacity. The elevation of the sewer main on Lake Street is higher than it should be, which makes the sewer main on DeGroff Street flatter and higher than it should be. This results in occasional sewage backups into homes served by the DeGroff sewer, and is likely the key factor that contributed to ADEC choosing to fund this project. This project will lower the elevation of the Lake Street sewer.

The pavement, curb and gutter and sidewalks are also in need of replacement. This work will essentially be subsidized by the ADEC grant, which pays for CBS to return the road surfacing to the pre-project condition.

### Analysis

The MMG program offers a 70% grant / 30% municipal match requirement for communities with a population fewer than 10,000. For the South Lake and West DeGroff project, the estimated cost will be \$1.7 million. Alaska Drinking Water Funds and Alaska Clean Water Fund loans have been committed by ADEC and will be used for the local match requirement. The loans have a

term of 20 years at 1.5% interest rate. The CBS FY17 budget also includes \$200,000 in general funds for this project, which will cover the non-ADEC-eligible costs (for example, replacement of curb and gutter that would not need to be demolished to replace the water or sewer mains).

**Fiscal Note**

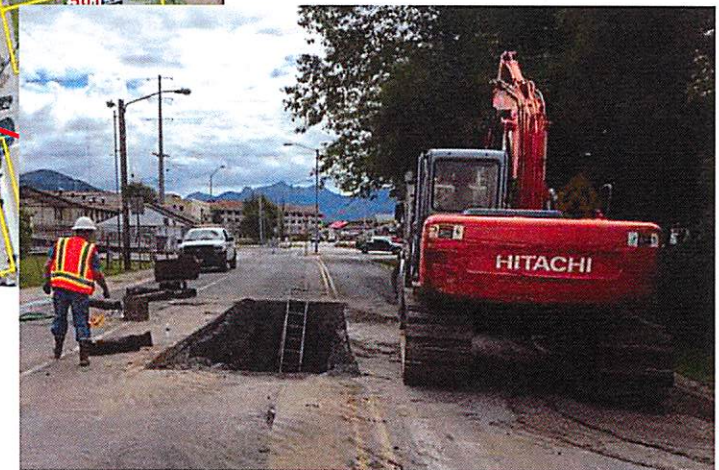
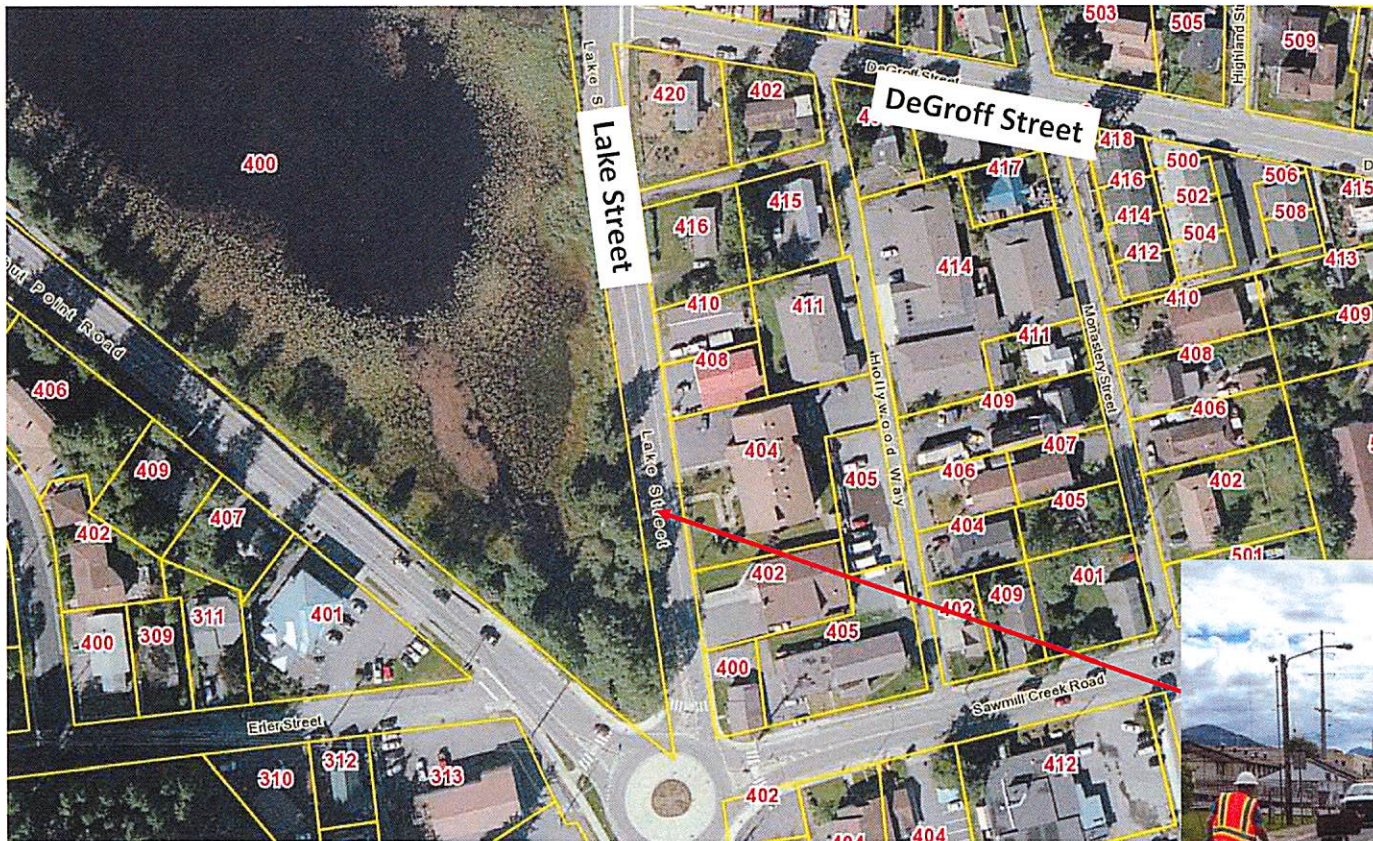
Improvements to this infrastructure has been identified in Municipal Capital Improvement Master Plans as top priorities. Funding these projects with grant funds, where possible, is the most prudent fiscal course of action.

In addition, current borrowing rates are very low and uncertain economic times may cause borrowing rates to increase in the future. For this reason, it is also fiscally prudent to utilize fixed-rate, low interest loans for the matching portions of these grants whenever possible.

**Recommendation:**

**Approve Resolution 2016-14 authorizing the City and Borough to submit a grant application to the Alaska Department of Environmental Conservation Municipal Matching Grant Program for the South Lake and West DeGroff water and sewer improvements project, and to execute the resulting grant offer.**

# July 2016 Water Main Break Repair: Lake Street



CBS crews repaired the 1966 6" cast iron water main in front of 404 Lake Street on July 12, 2016. The larger hole in the pipe photo at top, right, was made by the excavator operator when removing the pipe. The longitudinal crack running the length of the pipe was the source of the leak. In addition to the cost of the work, this busy section of Lake Street serving the Swan Lake Senior Center was shut down for several hours.

# Memo

**To:** City and Borough of Sitka Assembly

**To:** Mark Gorman, Administrator

**From:** Jay Sweeney, Chief Financial and Administrative Officer



**Date:** August 16, 2016

**Re:** ADEC Municipal Matching Grant for South Lake and West DeGroff Sewer and Water Improvements

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Mayor McConnell and Assembly Members,

I support the proposed application for Alaska Department of Environmental Conservation (ADEC) Matching Grant for South Lake and West DeGroff Sewer and Water Improvements. It is important, though, to provide additional financial perspectives into the project.

In recent correspondence to the Assembly, I have spoken to how best practices in Municipal Financial Management stress the importance of ongoing capital improvement project (CIP) planning and its relationship to appropriate levels of working capital in Enterprise Funds. User fees and charges are ultimately derived from the planning for capital improvements. The planning process involves working backwards from capital improvements; first required capital improvements are identified, then required levels of working capital and/or debt necessary to pay for the projects are determined, then cash flow necessary to achieve the desired level of working capital is determined, then, finally, user fees are set at the required level to generate the necessary cash flow.

Replacement of DeGroff and South Lake Street sewer and water mains, with accompanying street, sidewalk, and storm water improvements, has been planned for within the water and wastewater master plans and accompanying CIP fiscal plans. The financial planning for these improvements, however, has forecasted necessary future user fee increases to pay for the portion of the improvements not covered by grants. Or, as started above, the Municipality will be taking on additional debt (low interest loans) to pay for its matching share of the improvements. This increased debt, in turn, will require increased cash flow from operations to meet the obligations which, in turn, will mean user fees will need to be increased unless other cost reductions can be obtained.

The additional fee burden for the proposed improvements is not large. Additional annual debt service for a low interest loan of \$500,000 would be approximately \$29,000 per year. This would equal approximately a \$0.67/month increase in each user's utility charges.

The critical point that I wish to emphasize is that all infrastructure eventually needs to be replaced and doing so requires either (1) a grant, (2) use of accumulated working capital, or (3) taking on debt. If infrastructure needs to be replaced and a grant is not available to cover the full cost, and if user fees have not been at the appropriate levels to build up working capital to pay for the improvement costs, then either debt must be assumed or the improvements postponed. If debt is assumed, then user fees must be adjusted for the additional annual debt service cost.

The need for the proposed improvements is real and having the State of Alaska, in this fiscal climate, pay 70% is a godsend. I recommend that the Assembly approve the proposed grant application with the recognition that the resulting debt service for the loan required to pay for the matching costs will place pressure on additional user fee increases over the course of the loan.

CITY AND BOROUGH OF SITKA

RESOLUTION NO. 2016-14

A RESOLUTION OF THE CITY AND BOROUGH OF SITKA, ALASKA, AUTHORIZING A MUNICIPAL MATCHING GRANT APPLICATION TO THE ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION FOR SOUTH LAKE STREET AND WEST DeGROFF WATER & SEWER IMPROVEMENTS

WHEREAS, the City and Borough of Sitka (CBS) seeks to obtain the necessary financial assistance to construct priority water and wastewater improvements; and

WHEREAS, the State of Alaska Department of Environmental Conservation has a Municipal Matching Grant program which could fund the water and sewer improvements; and

WHEREAS, the Municipal Matching Grant program will provide 70% of the funding and CBS would provide 30% of the funding; and

NOW, THEREFORE, BE IT RESOLVED by the Assembly of the City and Borough of Sitka that the Administrator is authorized to apply to the Alaska Department of Environmental Conservation for Municipal Matching Grants for planning, design and construction of the above referenced water and sewer projects and to execute the grant agreements if an offer is made.

PASSED, APPROVED, AND ADOPTED by the Assembly of the City and Borough of Sitka, Alaska on this 23rd day of August 2016.

Mim McConnell, Mayor

ATTEST:

Sara Peterson, CMC
Municipal Clerk