

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

POSSIBLE MOTION

I MOVE TO approve Resolution 2015-15 on first and final reading.

MEMORANDUM

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

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

Reviewed: Jay Sweeney, Chief Finance and Administrative Officer *J*
Mark Buggins, Environmental Superintendent *MB*
Dan Tadic, P.E., Municipal Engineer
Tori Fleming, Contract Coordinator *TF*

Date: August 4, 2015

Subject: Alaska Department of Environmental Conservation
FY16 Municipal Loan Applications

Background:

Each year, staff submits loan questionnaires to the Alaska Department of Environmental Conservation's Municipal Grants and Loans (MGL) Program for priority water and sewer infrastructure projects. Questionnaires are competitively scored and ranked against other applicants statewide. For FY2015, one City and Borough of Sitka (CBS) project scored well enough to be listed on the Priority Funding List (Marine Street Sewer Improvements), and five other projects (shown below) scored well enough to be eligible for funding, if available. The likelihood that funding will be made available for the non-priority list projects is high.

Project	Loan Amount
Marine Street Sewer Improvements	\$1,352,100
Marine Street Water Improvements	\$1,463,700
Crescent Lift Station Replacement	\$502,500
Wastewater Treatment Plant HVAC Improvements	\$2,832,500
WWTP Building Envelope Improvements	\$1,825,000
Water Storage Planning, Surveying and Design	\$250,000

For the loans CBS chooses to pursue, the next step is to complete loan applications, which requires Assembly approval.

Analysis:

Justification for the projects recommended for loan applications follows.

Marine Street Water and Sewer Improvements (two separate loans): The utilities in Marine Street have shown signs of rapid deterioration in the past few years. The water main has broken twice since 2012, and sewage has backed up into a home on Marine Street three times, most recently in July 2015. This project is slated for Fiscal Year 2017 construction.

Crescent Lift Station Replacement: This lift station, located near the Sitka Sound Science Center, requires inordinate staff effort to maintain and operate. Additionally, the obsolete pumps are inefficient and spare parts are not available. Replacement of this lift station was recommended in the 2012 Sewer Master Plan.

WWTP HVAC Improvements: This project is centered on the replacement of oil-fired boilers with water-to-air heat pumps that utilize treated effluent as a heat source. This action would save CBS \$43,000 in operating costs annually (2013 dollars), according to a 2012 Feasibility Study.

Water Storage Planning, Surveying and Design: There are no water storage tanks east of the roundabout, a shortcoming identified in both the 2009 Water Master Plan and a 2014 Water Modeling Report. This lack of storage capacity limits CBS's options to develop a promising secondary (backup) water source.

Public Works does not recommend applying for the WWTP Building Envelope Improvements loan. We intend to complete the HVAC improvements first, and MGL likes to see loans at least partially spent within two years of award. We will re-apply for WWTP building envelope improvements funding when the project is closer to beginning.

MGL also offers grant funding for water and sewer projects. Grants have to be matched with a 30 percent municipal contribution, which can be covered by the loans. Standard practice is to not begin a water and sewer "street" project until both grant and loan funding have been obtained, such as was done on the recent Monastery & Baranof and Hollywood & New Archangel projects. Public Works submitted grant questionnaires for five projects this July. If funded, that money would be available no sooner than July 1, 2016.

If the State of Alaska awards a loan, CBS is not obligated to draw any loan funds. MGL has historically awarded significant additional "points" on the grant questionnaires for projects that have sufficient funding, including loan funding.

Fiscal Note:

The Long Range Cash Flow, Working Capital, and Debt Models (the "Financial Models") for the Water and Wastewater Funds has been updated to reflect the five projects being proposed for DEC loans and grants. If the grants and loans, as reflected in the Financial Models, are obtained in the amounts and at the times forecasted, the Funds will have sufficient cash flow from operations to pay the additional debt service, provided that sustained annual rate increases are implemented. For the Wastewater Fund, the necessary annual rate increase is a minimum 4.9% annual rate increase. For the Water Fund, the required necessary annual rate increase is a minimum 6.2% annual rate increase.

The Financial Models project \$1,868,090 in grant funds being received in the Wastewater Treatment Fund for the named projects that are wastewater related. If such grants are not received and additional debt is taken on instead, the required annual rate increases necessary to pay for increased debt service in the Wastewater Fund will increase.

Also, it is anticipated that the State of Alaska agencies administering the grants will add stipulations to future low interest low agreements requiring that both debt reserves and emergency repair and maintenance reserves be established. Recent Financial Capacity reports from the Department of Community and Regional Affairs, analyzing the capacity of the Water and Wastewater Funds to take on additional debt, have made such recommendations. If such stipulations are added to grant agreements, required incremental annual rate increases to meet additional debt service related to the subject projects may also be necessary.

Recommendation:

Approve Resolution 2015-15 authorizing CBS to apply for and execute five loans to the Alaska Department of Environmental Conservation's MG&L Program as indicated above. The loans are for Marine Street Sewer Improvements, Marine Street Water Improvements, Crescent Lift Station Replacement, WWTP HVAC Improvements and Water Storage Planning, Survey and Design.

Sponsor: Administration

CITY AND BOROUGH OF SITKA

RESOLUTION NO. 2015-15

A RESOLUTION OF THE CITY AND BOROUGH OF SITKA, AUTHORIZING THE APPLICATION FOR LOANS TO THE ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION UNDER THE ALASKA DRINKING WATER FUND FOR MARINE STREET WATER IMPROVEMENTS AND A WATER STORAGE STUDY, AND UNDER THE ALASKA CLEAN WATER FUND FOR MARINE STREET SEWER IMPROVEMENTS, CRESCENT LIFT STATION REPLACEMENT AND WASTEWATER TREATMENT PLANT HVAC IMPROVEMENTS

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

WHEREAS, the State of Alaska Department of Environmental Conservation is able to offer funding through the Alaska Drinking Water Fund and Alaska Clean Water Fund; and

WHEREAS, the Municipality wishes to apply for loans for these important capital projects.

NOW, THEREFORE, BE IT RESOLVED by the Assembly of the City and Borough of Sitka that the Municipal Administrator is authorized to apply to the Alaska Department of Environmental Conservation for loans from the Alaska Drinking Water Fund and Alaska Clean Water Fund for planning, design, and construction of the above referenced water and sewer projects and to execute the loan agreements if the projects are funded.

PASSED, APPROVED, AND ADOPTED by the Assembly of the City and Borough of Sitka, Alaska on this 11th day of August, 2015.

Mayor Mim McConnell

ATTEST:

Sara Peterson, CMC
Municipal Clerk