




# CITY AND BOROUGH OF SITKA

A COAST GUARD CITY

## MEMORANDUM

**To:** Mayor Eisenbeisz and Assembly Members

**From:** John Leach, Municipal Administrator 

**Date:** June 3, 2025

**Subject:** Supplemental Appropriation for GPIP Haul Out and Shipyard Initial Operating and Capital Expenses

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### **Background**

At the March 25, 2025, Assembly meeting, the City and Borough of Sitka (CBS) Assembly approved moving forward with a proposal from Highmark Marine Fabrication (HMF) to serve as the contracted operator for the CBS Haul Out and Shipyard Facility located at the Gary Paxton Industrial Park (GPIP). Construction of the facility, which began in the fall of 2024 under contract with Western Marine Construction (WMC), reached substantial completion on May 18, 2025.

While the primary construction is complete, several key components identified in the Phase I scope remain outstanding and must be addressed before the shipyard can be considered operational. These final components are critical for meeting the safety and functionality standards necessary to begin shipyard operations under the terms of the proposed contract with HMF.

CBS has been engaged in contract negotiations with HMF since April 2025. Through this process, it has become clear that as the facility owner, CBS should procure certain remaining equipment and infrastructure to ensure the long-term operability and responsibility for core shipyard assets. Making these purchases directly not only aligns with the City's ownership obligations but also supports the goal of establishing a more functional and efficient shipyard. Additionally, this approach may allow HMF to offer lower average haul and storage rates, enhancing affordability for users and increasing competitiveness of the facility.

### **Analysis**

To achieve operational readiness for the CBS Haul Out and Shipyard Facility, a range of capital items and initial operating expenses must be addressed. These items are essential to ensure the facility meets safety, environmental, and functional requirements necessary

for both compliance and successful partnership with the contracted operator. The total estimated cost of the remaining items is \$715,250.

The following investments are required to complete Phase I and enable full operation of the shipyard:

- **Power and Controls for the Heated Washdown Pad** – Estimated at \$223,000, this is a critical component for vessel cleaning operations and environmental compliance.
- **Installation of Power Pedestals** – Three pedestals will be installed to provide shore power to vessels in the yard, at an estimated cost of \$50,000, with CBS contributing in-kind labor.
- **Pier Safety Improvements** – Including installation of outboard railing, cleats, and a ladder, this work is estimated at \$120,000 to ensure user safety and compliance with maritime safety standards.
- **Tideflex Valve for Washdown Pad Outflow** – At an estimated cost of \$60,000, this valve will prevent backflow and enhance environmental safeguards.
- **Used Telehandler Forklift** – Required for lifting and yard operations, estimated at \$76,500.
- **Initial Yard Support Materials** – These are necessary for safely securing vessels while in the yard.:
  - o Blocking material (\$15,750)
  - o Boat stands (\$70,000)
  - o Cribbing (\$20,000)
- **Snow Removal Equipment** – A plow kit, estimated at \$10,000, will be purchased for a CBS-owned vehicle to facilitate winter operations on-site.
- **Insurance Coverage** – An estimated \$25,000 will ensure appropriate insurance for the shipyard's initial operational period.
- **Maintenance Consumables** – An initial shelf stock of maintenance and repair items estimated at \$10,000.
- **Annual CBS Maintenance Labor** – Estimated at \$20,000 to support ongoing minor maintenance needs at the facility.
- **Environmental Compliance** – Costs related to required environmental monitoring and reporting are estimated at \$15,000.

These costs represent essential capital and operating expenses that CBS, as the facility owner, must incur to bring the Haul Out and Shipyard into service. They also position the City to fulfill its contractual and operational responsibilities while enabling HMF to operate effectively and competitively.

### **Fiscal Note**

The total estimated cost for FY26 operational and capital expenses needed to make the GPIIP Haul Out and Shipyard Facility operational in FY26 is \$715,250.

Following this initial outlay, future operational and capital expenses associated with the facility will be incorporated into the annual budget of the GPIIP Enterprise Fund, reducing the need for future support from general municipal funds.

## **FY26 Operational Expenses**

We recommend an appropriation of \$70,000 for haul out operations for FY26, to be funded by GPIP working capital.

There is currently no fee added to the haul out rates to cover the City's portion of operating costs, which is unsustainable. The health of the fund should be revisited after one year to evaluate the level of fees needed to continue operations.

GPIP working capital balance as of 6/30/2024: \$572,910

## **Capital Expenses**

The total additional funding needed to make the haul out and shipyard operational is \$645,250. This represents a one-time investment to complete Phase I of the project and enable the shipyard to begin operations under the pending contract with HMF. It will require appropriations from alternative sources, which may include the General Fund, Economic Development Fund, the Harbor Fund, or through a redirection of Raw Fish Tax revenue.

We recommend that \$150,000 of this funding come from the Economic Development Fund and \$495,250 come from General Fund working capital.

This will affect the General Fund's year-end surplus and what we have in reserves for unanticipated expenses. In the short term, it may impact the transfer to PISF and reduce the amount of funds available for capital projects for FY27.

General Fund unassigned fund balance of 6/30/2024: \$7,856,510

## **Recommendation**

Staff recommends that the Assembly approve Ordinance 2025-15, authorizing a supplemental appropriation in the amount of \$715,250 to fund the initial operating and capital expenses necessary to bring the GPIP Haul Out and Shipyard Facility into operational status. This investment is essential to fulfill the City and Borough of Sitka's responsibilities as facility owner, ensure the safety and functionality of the site, and enable contracted operations by Highmark Marine Fabrication to proceed.

Approval of this ordinance will complete Phase I of the project and support the long-term success of the shipyard as a critical economic driver and maritime infrastructure asset for Sitka.

Encl: Ordinance 2025-15