

## **POSSIBLE MOTION**

**I MOVE TO** approve Resolution 2018-18 on  
first and final reading.



# City and Borough of Sitka

100 Lincoln Street • Sitka, Alaska 99835

---

## MEMORANDUM

**To:** Mayor Hunter and Assembly Members  
Keith Brady, Municipal Administrator

**From:** Jay Sweeney, Chief Finance and Administrative Officer *JS*  
Michael Harmon, P.E., Public Works Director *MH*

**Reviewed:** David Longtin, P.E., Senior Engineer *DL*  
Shilo Williams, Environmental Superintendent  
Melissa Haley, Controller *MH*

**Date:** August 21, 2018

**Subject:** Alaska Department of Environmental Conservation  
Loan Application for Critical Secondary Water Source Project

---

### Requested Action

Approve Resolution 2018-18 authorizing the City and Borough of Sitka (CBS) to apply for and execute up to \$18 million in loan funding from the Alaska Department of Environmental Conservation (ADEC) State Revolving Fund program for the design and construction of the Critical Secondary Water Source project.

### Summary

CBS needs a backup water source during periods when the Blue Lake penstock is unavailable due to emergencies or maintenance, and for when the lake source water is too turbid to treat exclusively with ultraviolet radiation. CBS must move forward and secure the necessary ADEC loan funding in order to have this project in operation for a 2020 dam inspection. This need has been documented in the Filtration Evaluation for Critical Secondary Water Source report previously provided to the Assembly (<http://www.cityofsitka.com/government/departments/publicworks/projects.html>). The estimated \$18 million cost of this project was factored in to the recent water rate increase passed by the Assembly.

### Fiscal Note

ADEC offers low-interest loans through its State Revolving Fund Program. CBS has utilized the ADEC loan program to fund multiple water and wastewater infrastructure projects over the past decade. Loans can finance up to 100 percent of a project's eligible costs for planning, design

and construction of publicly owned facilities.

Fiscal forecasts have been created and refined through the collaboration of the Public Works and Finance Departments. In these forecasts, the projected future financial position and financial performance of the Water Fund has been combined with the long-range municipal capital improvement plans in order to model the user fees necessary to finance the improvements and meet minimum financial ratios.

At the end of FY2018 the Assembly passed the 22% rate increase necessary to implement our capital improvement plan and to ensure that revenue from user fees would provide enough cash flow to cover the debt service for the loan funding necessary to complete the design and construction of the critical secondary water supply. As this significant increase was implemented for FY2019, future increases are expected to be near the rate of inflation (2.0 to 2.2%). The current rates ensure that the CBS will have sufficient cash flow to pay for debt service on its loans and that it continues to meet critical financial ratios (including that of affordability), the maintenance of which will ensure continued future access to ADEC's low-interest loans. ADEC is now closely analyzing the fiscal forecasts prepared by Public Works and Finance – in conversations with the consultant hired by ADEC to do the analysis based on our models, it was clear that failure to implement the proposed rate increases would have resulted in limitations in CBS's ability to borrow. Without the ability to borrow either the CBS will be required to implement significant rate increases to repair infrastructure, or critical infrastructure would fail.

While not yet in effect, we have been notified that ADEC loans will no longer be set at a flat rate of 1.5%. While the intent is to maintain low rates, they will, at some point, be tied to an index and set the day the loan is approved; therefore, at this time we do not know the exact rate of the loan.

Seeking funding through the ADEC low interest loan program is the most viable path to finance the construction of the critical secondary water supply. Unfortunately, decades of minimal or no rate increases have led to a scenario in which funding with working capital is not an option as the unrestricted working capital in the fund is only \$1.6 million, a fraction of what is needed. Even if we were to start saving every last penny (meaning not maintaining the current water system), it would take 14 years to save enough. That narrows the choice to either a large amount of subsidization from the general government (which would require raising taxes) or borrowing. In borrowing our current options are to take advantage of the low interest ADEC loans (currently at or near 1.5%) or to issue revenue bonds, which have an interest rate of between 4 and 5%. Even if the CBS Charter were changed to allow for internal borrowing from the Permanent Fund, the interest we would have to charge to meet the returns currently being earned, would be higher even than bonding (5 to 6%), and significantly higher than the ADEC low interest loans, not to mention that a significant portion of CBS assets would be locked in at this rate, which given the potential of rising interest rates, could result in a significant drop in the buying power of the Permanent Fund. For these reasons, staff recommend approval of the ADEC loan application.

### **Project Background**

ADEC wrote CBS a letter in 2011, stating that we would no longer be able to provide unfiltered Indian River water to our customers as potable water. Since then (and in one case, prior to then), CBS has made multiple efforts to fund and establish a secondary source of potable water for when required penstock maintenance or other events made Blue Lake water unavailable:

- CBS Water Master Plan (May 2009): Recommends construction of a dedicated water line from Blue Lake for use during penstock maintenance.
- State Legislative Requests for a secondary potable water supply project (2012, 2013, 2014, 2015, 2016, 2017 and 2018).
- State Municipal Matching Grant Questionnaire for a secondary potable water supply project (2012 and 2013): ADEC has discontinued this grant program.
- Indian River and Starrigavan Test Well Drilling Program (October 2012): Established viability of groundwater source at Starrigavan, but was unable to locate an adequate aquifer near Indian River. Cost of treating and transmitting Starrigavan groundwater to town was estimated at \$50 million.
- State Revolving Loan Questionnaire for Redundant Water Source for Penstock Maintenance (November 2017): This questionnaire placed the project on ADEC's Intended Use Plan, allowing CBS to apply for the loan with Assembly approval.
- Dedicated Water Supply Report (January 2018): Evaluated numerous secondary water supply options, including a dedicated supply line from Blue Lake.
- Filtration Evaluation for Critical Secondary Water Source (April 2018): In-depth evaluation of water filtration options for secondary water source.

CITY AND BOROUGH OF SITKA

RESOLUTION NO. 2018-18

**A RESOLUTION OF THE CITY AND BOROUGH OF SITKA APPROVING SUBMITTAL AND EXECUTION OF ALASKA DRINKING WATER FUND LOAN APPLICATIONS TO THE STATE OF ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION TOTALLING UP TO \$18,000,000 FOR THE PROJECT ENTITLED CRITICAL SECONDARY WATER SUPPLY**

**WHEREAS**, the State of Alaska Department of Environmental Conservation's State Revolving Loan program administers the Alaska Drinking Water Fund; and

**WHEREAS**, the Alaska Drinking Water Fund offers low-interest loans for planning, design and construction of publicly owned drinking water facilities; and

**WHEREAS**, the City and Borough of Sitka needs to provide a secondary source of potable water to water customers when the primary source of water is unavailable; and

**WHEREAS**, water rates were increased in 2018 to provide for debt service on a project to provide a secondary water source.

**NOW, THEREFORE, BE IT RESOLVED** by the Assembly of the City and Borough of Sitka that the City and Borough of Sitka supports the project entitled Critical Secondary Water Supply.

**BE IT FURTHER RESOLVED** by the Assembly that the Administrator is authorized to apply for the loans needed to complete this project up to a total of \$18,000,000, and to execute the loans if received.

**PASSED, APPROVED, AND ADOPTED** by the Assembly of the City and Borough of Sitka, Alaska on this 30th day of August, 2018.

\_\_\_\_\_  
Matthew Hunter, Mayor

ATTEST:

\_\_\_\_\_  
Melissa Henshaw, CMC  
Acting Municipal Clerk

1<sup>st</sup> and final reading 8/30/18

Sponsor: Administrator