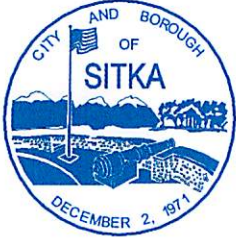


## **POSSIBLE MOTION**

**I MOVE TO** approve Ordinance 2018-49  
on second and final reading.



# City and Borough of Sitka

100 Lincoln Street • Sitka, Alaska 99835

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## MEMORANDUM

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

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

**Date:** October 2, 2018

**Subject:** Supplemental Capital Appropriation for Seaplane Base

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### Executive Summary

The purpose of ordinance 2018-49 is to make a supplemental capital appropriation from the General Fund for initial engineering work for the Seaplane Base.

### Background and Discussion

Per direction of the Assembly, the City and Borough of Sitka is pursuing a grant from the Federal Aviation Administration (FAA) for the construction of a seaplane base. If the grant is obtained, up to 100% funding for eligible project costs could be possible. If there is a match required by the City and Borough of Sitka, it is likely to be less than 10% of the eligible expenses. Expenses that are not eligible for FAA funding will need to be limited to what funding the City and Borough of Sitka would like to contribute.

Some project costs are not eligible for grant funding. In particular, costs incurred in a project before the award date of a grant are not reimbursable from it. If such costs are incurred, they are borne by the grantee and usually do not qualify as grant match (the particular requirements of grantee match expenditures are set forth in each grants grant agreement).

In order to be able to complete and submit a grant agreement, as well as complete preliminary in-house planning work, preliminary project expenditures will be necessary. As such preliminary expenditures will not be eligible for grant funding or reimbursement, a supplemental capital appropriation is needed in order to properly account for preliminary project outlays. While using existing operating appropriations for engineer wages within the Public Works Department in combination with a project tracking number is an option, it is not optimal for two reasons: (1) per the

requirements of Article XI of the Charter, capital improvements are authorized and accounted for differently than operating outlays, and, (2) governmental accounting standards require that capital improvements be accounted for in a separate fund. For these two reasons, staff is recommending that the seaplane base capital project be established in the Governmental Capital Projects Fund (Fund 700) and funded from General Fund working capital.

The costs projected to be incurred on the seaplane base project prior to receipt of a grant will be predominantly composed of in-house wages. Other minor external costs necessary to complete a grant application and accomplish basic project planning work may also be incurred. If the State does not commit to providing land associated to the preferred location, this funding can be used to continue planning of an alternate site location.

### **General Fund versus Harbor Fund for Source of Funding**

When FAA grant funding is accepted for construction of a facility, a grantee (in FAA parlance, "Project Sponsor") commits meeting to long-term financial and administrative requirements for the new facility. These requirements include specialized accounting requirements (detailed accounting for labor and maintenance costs), requirements for separation of collected revenue (co-mingling restrictions), and activity reporting to the FAA.

Staff is currently working to obtain full understanding of the scope of these responsibilities, and the amount of effort to accomplish them. Until a full understanding is obtained, a decision as to Departmental responsibility for the ultimate operation of the Seaplane Base is being deferred. All departments ultimately assigned responsibility for elements of the Seaplane Base must be provided adequate resources (people, money) to meet FAA requirements. Thus, while the Harbor Department is a strong choice to ultimately operate the facility, establishment of a new fund, or creation of a new Department within the General Fund, are also options which will be considered.

If it is ultimately decided that the Seaplane Base will be a managerial responsibility of the Harbor Department, the capital project will be transferred to the Harbor Fund. It is anticipated that staff would request that the Assembly approve reimbursement of the General Fund for any working capital outlays made during construction up to the point of transfer. Such a decision would rest both upon the recommendation of the Port and Harbors Commission as well as the financial condition and unrestricted fund balance (unassigned working capital) of the Harbor Fund.

Until a final decision is ultimately made on managerial responsibility for the Seaplane Base, staff feels the appropriate Fund to account for project outlays is the General Fund. The General Fund is the appropriate funding source for general governmental capital projects, which is what the Seaplane Base will be until its ultimate organizational destiny is decided.

## **Fiscal Note**

By passing this supplemental budget ordinance, capital project expenditures from working capital for the Seaplane Base will be authorized in an amount not to exceed \$50,000. As this supplemental appropriation is capital in nature, it will not lapse until the project is either completed or abandoned.

When in-house engineering wages are expended towards a capital project, expenditures for such wages are recorded within the General Fund, Public Works Division, and Engineering Department. The General Fund then charges the Governmental Capital Projects Fund (Fund 700) for such wages, with the General Fund recording the charge as jobbing revenue (***FY2019 Budget, page 68, account 3491 000, jobbing labor***) and the capital projects fund recording the expenditure ultimately as a capital improvement asset.

While this may seem like a circular flow of accounting, it is necessary to ensure that the Charter is adhered to and proper accounting procedures followed. It is also the standard and traditional method for authorizing and accounting for in-house engineering labor expended on all General Fund capital projects. As a result, while overall expenditure appropriations will be increased, they will be offset by jobbing revenue, with a net increase in overall outlays attributable to just the external expenditures (permits, consultant charges, etc.)

At the present time, Municipal staff is researching what continuing administrative requirements it will commit to if it receives and accepts FAA Airport Improvement Program (AIP) grant funding. As a condition of accepting FAA funding, project sponsors (of which the CBS would become) are required to accomplish administrative reporting, accounting, financial reporting, and maintenance responsibilities for the life of the project.

Until the scope of ongoing required responsibilities is fully understood, the Administrator will be unable to determine if the responsibilities can be accomplished with existing staff, or, if additional staff will need to be hired. Compliance with FAA requirements will become part of the annual external audit once the facility is placed into service; audit findings could result if insufficient resources are made available to accomplish ongoing FAA requirements.

Accordingly, if the grant application is approved and a grant received, Municipal staff will advocate for adequate resources to ensure that all FAA requirements are complied with.

CITY AND BOROUGH OF SITKA

ORDINANCE NO. 2018-49  
AN ORDINANCE OF THE CITY AND BOROUGH OF SITKA  
MAKING SUPPLEMENTAL APPROPRIATIONS FOR FISCAL YEAR 2019  
(SEAPLANE BASE PROJECT)

BE IT ENACTED by the Assembly of the City and Borough of Sitka, Alaska as follows:

1. **CLASSIFICATION.** This ordinance is not of a permanent nature and is not intended to be a part of the Sitka General Code of the City and Borough of Sitka, Alaska.

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

3. **PURPOSE.** The purpose of this ordinance is to make a supplemental capital appropriation for Fiscal Year 2019.

4. **ENACTMENT.** In accordance with Section 11.10(a) of the Charter of the City and Borough of Sitka, Alaska, the Assembly hereby makes the following supplemental appropriations for the budget period beginning July 1, 2018 and ending June 30, 2019.

<b><u>FISCAL YEAR 2019 EXPENDITURE BUDGETS</u></b>
<b>CAPITAL PROJECTS</b>
<b>Fund 700 - Seaplane Base Project: Increase capital appropriations in the amount of \$50,000 for the initial stage of acquiring the Seaplane Base. These funds will come from the General Fund working capital.</b>

**EXPLANATION**

At the August 30<sup>th</sup> Assembly meeting, the Assembly gave direction for the Administrator to pursue the seaplane base and land acquisition project. To accomplish this, an appropriation is required.

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

**PASSED, APPROVED, AND ADOPTED** by the Assembly of the City and Borough of Sitka, Alaska this 23rd Day of October, 2018.

**ATTEST:**

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Gary L Paxton, Mayor

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Sara Peterson, MMC  
Municipal Clerk

1<sup>st</sup> reading 10/9/18

2<sup>nd</sup> and final reading 10/23/18

Sponsor: Administrator