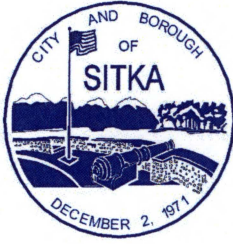


**POSSIBLE MOTION**

**I MOVE TO** approve Resolution 2019-05 on  
first and final reading.



# City and Borough of Sitka

100 Lincoln Street • Sitka, Alaska 99835

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## MEMORANDUM

**To:** Gary Paxton and Assembly Members  
Keith Brady, Municipal Administrator *KB*

**From:** Michael Harmon, P.E., Public Works Director *MA*  
Shilo Williams, Environmental Superintendent *SW*  
Kelli Cropper, MPM, Project Manager *KE*

**Reviewed:** Cliff Richter, P.E., Municipal Engineer *CR*  
Jay Sweeney, Finance Director *JS*

**Date:** February 5, 2019

**Subject:** Authorize ADEC Loan for the Sitka Wastewater Treatment Plant (WWTP) Rehabilitation Project.

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### Requested Action

Approve Resolution 2019-05 authorizing the City and Borough of Sitka (CBS) Municipal Administrator to execute a loan application with the Alaska Department of Environmental Conservation (ADEC) for \$5,079,500 to complete the \$10 million funding required for the design and construction of the Sitka Wastewater Treatment Plant (WWTP) Rehabilitation Project. Please note this loan will be appropriated with the FY2020 budget as previously presented in the recent FY2020 Enterprise Funds work sessions.

### Summary

The estimated cost of the Sitka WWTP Rehabilitation Project is \$10 million. The current funding comprised of ADEC loans and working capital totals \$4,920,500, leaving an shortfall of \$5,070,500. There is an urgent need to complete the rehabilitation of the existing building and its building systems, as many of the deficiencies are life safety deficiencies and other code compliance deficiencies. Efforts are being made to 'fast track' the WWTP Rehabilitation Project in order to eliminate risk to WWTP operators and the CBS.

The WWTP was built in the early 1980s and the building systems are past their useful lives. The ventilation air system (HVAC) has failed, resulting in extremely poor, corrosive air quality within the WWTP, which has caused corrosion of the exposed metal, piping, electrical, and life safety systems within the building. The failed HVAC system also creates an unhealthy environment for the staff who breathe the

unwholesome air. The building's walls (building envelope) are not airtight due to age, moisture penetration, and dry rot, which prohibits proper pressurization of the spaces. As a result the computers and other electronics in the Clean Areas regularly become dysfunctional within months. The rehabilitation of the WWTP to remedy these conditions was identified as a critical project that urgently needs to be completed. The Needs Assessment for the WWTP and the WWTP Rehabilitation Project design have been pursued on a 'fast track' schedule in an effort to bid the project in the spring of 2019 with the anticipated completion of the construction mid-summer or fall 2020. Delaying approval of the loan needed to bid the project will delay its bidding and the correction of the current critical needs, which will extend and perhaps increase the risk to the CBS for not correcting these conditions.

### **Fiscal Note**

To finance the proposed repairs to the wastewater treatment plant, the Wastewater Fund must take on additional debt. The amount of working capital in the fund is insufficient to pay for the cost of the repairs outright.

At the end of FY2018, the Wastewater Fund had undesignated and available working capital of \$4,597,880. This undesignated and available working capital is projected to grow by \$108,479 to \$4,706,359 by the end of FY2019. Thus, additional required project funding can't be funded through working capital even if the entire balance of undesignated and available working capital (i.e., reserves) is dedicated to the project, and, the project must either be funded through debt or postponed. Financing \$5,070,500 through a low-interest State of Alaska Clean Water Loan Program loan would result in increased annual debt service of \$295,335/year for a period of 20 years. \$295,335/year spread evenly across all rate payers (approximately 5,000 customers) amounts to \$4.92/customer/month.

Current rate structures and cash flow can absorb this increased debt service; however, future planned infrastructure projects beyond this WWTP repair project must be postponed unless user fees are increased. For example, in FY2021, the Wastewater Utility is planning to borrow an additional \$1,306,875 to finance the Lake Street (Degroff to Arrowhead) & Hirst Utility & Paving Project. Financing this project through debt without user fee increases would cause cash flow from operations to turn negative, meaning that the additional debt service to finance the project would need to be paid out of working capital. It is unlikely that the State of Alaska will lend Sitka additional money if the Wastewater Fund's cash flow is insufficient to cover the increased debt service. Thus, unless user fees are eventually increased or some form of subsidization is provided to the Wastewater Fund, future repair and renovation projects beyond the WWTP repairs would need to be postponed.

The Public Works Department may be able to mitigate the effect of negative cash flow brought about by user fee increases by restructuring projects or shifting capital project priorities. Eventually, however, some capital improvement will need to be postponed if financing can't be obtained.

CITY AND BOROUGH OF SITKA

RESOLUTION NO. 2019-05

**A RESOLUTION OF THE CITY AND BOROUGH OF SITKA AUTHORIZING THE MUNICIPAL ADMINISTRATOR TO APPLY FOR AND EXECUTE A LOAN WITH THE ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION (ADEC) FOR THE FUNDING SHORTFALL OF \$5,079,500 FOR THE SITKA WASTEWATER TREATMENT PLANT REHABILITATION PROJECT ("THE PROJECT") FOR THE COMPLETION OF THE DESIGN AND CONSTRUCTION OF THE PROJECT IN ACCORDANCE WITH THE FY2020 BUDGET**

**WHEREAS**, the existing Sitka Wastewater Treatment Plant (WWTP) is a critical facility and part of the City's core infrastructure built in 1984 on Japonski Island, Sitka, Alaska, where the sewage for the entire City of Sitka is processed and treated by the WWTP Operators; and

**WHEREAS**, the building's mechanical, electrical, and life safety systems, along with the building envelope, are past their useful life or have failed and require replacement; and

**WHEREAS**, the estimated Project cost of \$10,000,000 exceeds the current funding of \$4,920,500 comprised of (2) ADEC Loans and Working Capital by \$5,079,500; and

**WHEREAS**, there is an urgency for completion of the rehabilitation of the existing WWTP building and its building systems, which will reduce the risk to the CBS and the plant operators.

**NOW, THEREFORE, BE IT RESOLVED** by the Assembly of the City and Borough of Sitka to authorize the CBS Municipal Administrator to apply for and execute a loan with the Alaska Department of Environmental Conservation (ADEC) for the funding shortfall of \$5,070,500 for the design and construction of the Sitka WWTP Rehabilitation Project in accordance with the FY2020 budget.

**PASSED, APPROVED, AND ADOPTED** by the Assembly of the City and Borough of Sitka, Alaska on this 12th day of February, 2019.

\_\_\_\_\_  
Gary L. Paxton, Mayor

ATTEST:

\_\_\_\_\_  
Sara Peterson, MMC  
Municipal Clerk

1<sup>st</sup> and final reading 2/12/19

Sponsor: Administrator