

POSSIBLE MOTION

I MOVE TO approve Ordinance 2020-48 on second and final reading making supplemental appropriations for fiscal year 2021 (Green Lake Phase I Supplemental Capital Appropriation).




City and Borough of Sitka

100 Lincoln Street • Sitka, Alaska 99835

MEMORANDUM

To: Mayor Paxton and Assembly Members

Thru: John Leach, Municipal Administrator 

From: Melissa Haley, Controller
Scott Elder, Electric Utility Director

Date: 8/18/2020

Subject: Ordinance 2020-48 Green Lake Phase I Supplemental Capital Appropriation

Background

The Green Lake Hydroelectric facility is the backbone of Sitka's Hydroelectric power generation. Any time either the Green Lake or the Blue Lake plant goes down, the utility must burn expensive diesel fuel in order to meet demand for electricity. Green Lake first went online in 1982 and has been running, without significant renovations, for nearly 40 years.

In order ensure continued generation, a phased project to rehabilitate the plant has been put into motion. Currently we are in the process of the first phase of the Green Lake Hydroelectric Plant Rehabilitation project, which is to be funded through working capital and through a low interest USDA loan. Currently we are in the process of applying for the USDA loan (approved by the assembly, first in February @ \$3 million and then again in May at \$4 million, due to very low interest rates). As these low interest rates have attracted many borrowers and as the Coronavirus pandemic has impacted USDA's normal processes, the application process is going slower than hoped. We are at a point where we must select a contractor to carry out the first phase of the work (addressing the most urgent repair needs related to the Project's dam intake structure, tunnel and penstock), however, we do not yet have the loan capital secured. Should we delay awarding the contract until the loan approval is in place, it is highly likely that the project will have to be pushed out another year (there is a small window each year in which lake levels allow for work on this phase of the project) increasing the cost of the project and also increasing the likelihood that a component of the Green Lake plant will catastrophically fail, meaning that we would have to meet electricity demand by burning diesel.

Analysis

There is approximately \$2.3 million available of the existing capital appropriation for the project. The additional \$1.3 million would ensure that there is funding committed to be able to award this key contract and keep the project on schedule. It is, however, unlikely that we would need to spend this appropriation, as we are near the final stages of the loan application and we hope to have the USDA funding available before significant expenditures have been incurred. Once the USDA loan comes through, the intention is to reduce the appropriation of the Electric Fund's working capital and instead spend down the loan. The goal of this supplemental appropriation is to ensure that there is sufficient funding appropriated to award this critical construction contract.

Fiscal Note

Due to the refunding of the revenue bonds that were callable earlier this year, we were able to un-restrict

a portion of the funds that are required to be set aside for debt service—as the debt service was reduced, so was the requirement to keep funds set aside in a debt service reserve. This has provided additional capital of at least \$1.8M.

Recommendation

Approve a supplemental capital appropriation of \$1.3 million to ensure that the funding is available to award this contract and to keep the project on schedule.