

Memorandum 11-145 Revenue Bond Sale for Harbor Improvement Projects

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MEMORANDUM 11-145

TO: Mayor Hornaday and Homer City Council

FROM: Port and Harbor Revenue Bond Committee / Barbara Howard Chair

DATE: October 24, 2011

SUBJECT: Proposed Revenue Bond Sale for Harbor Improvement Projects

Introduction

The City Council recently adopted Resolution 11-060 entitled " A RESOLUTION OF THE CITY COUNCIL OF HOMER, ALASKA, ESTABLISHING A COMMITTEE TO DEVELOP A PORT AND HARBOR IMPROVEMENT REVENUE BONDING PLAN AND PROVIDE COMMITTEE REVIEW AND OVERSIGHT THROUGHOUT THE IMPLEMENTATION AND COMPLETION OF ANY APPROVED PLAN." The Committee was established and held its first meeting in early August. Barbara Howard was elected Chair and meetings were held every Thursday until the end of September when they were changed to every other week.

Resolution 11-060 required that the Committee provide recommendations to the Council by November 1, 2011. We are pleased to report that the Committee has completed the first phase of its work. This memorandum contains the Committee's recommendations.

The Committee conducted a thorough review of all of the variables that must be evaluated when municipalities are considering a revenue bond sale. The Committee started by having a discussion with Deven Mitchell, the Executive Director of the Alaska Municipal Bond Bank. Mr. Mitchell explained the entire bond sale process from conception and application through closing. He also outlined the benefits associated with using the Bond Bank to conduct the sale. The Committee received several briefings from the Finance Director regarding the financial health and capacity of the Port and Harbor Enterprise Fund. As part of this process, the Committee reviewed the Fund's ability to generate the amount of revenue that would be needed to retire bond debt.

The Committee received an overview of all of the harbor projects that were included in the enabling resolution. It also reviewed a number of new projects that were not included in either the CIP List or the enabling resolution for possible inclusion in the bond sale. Finally, the Committee was informed that the current City Attorney, Tom Klinkner, was one of the best known bond counsels in the State. Bond Counsel is required for any bond sale and the City already has the legal services it will need.

The Project Selection Criteria

There are many port and harbor projects that have been on the CIP List for a long time and are worthy of consideration for inclusion in the bond sale. Making choices was potentially difficult, especially given the backlog of priority projects and the limited bonding capacity of the enterprise fund. Therefore, the Committee decided to go about selecting projects in a methodical and structured manner. It scored and ranked projects using a weighted set of criteria. The criteria were:

- Is the project included in the enabling resolution?
- Does the project address health and safety issues?
- Does bonding leverage other money from outside sources?
- Does the project stimulate economic development and job creation?
- Does the project generate revenue for the enterprise fund?
- Does the project improve service delivery to port and harbor customers?
- Is there an identifiable revenue stream from benefitted users to retire the debt?

Other Considerations

The Committee carefully considered the financial capacity of the Port and Harbor Enterprise Fund and concluded that if a bond sale was conducted, it should be a relatively small and conservative one. The Committee took note of the fact that the Fund has diminishing retained earnings and cash assets below what would be advisable. The amount of money in the depreciation account is much less than that recommended by the City's auditors. The City could easily justify fee increases of 10 percent or more just to address these issues. Adding additional increases on top of that could be problematic and result in diminishing returns. No one wanted to raise fees too high too fast. To complicate matters further, revenues are down overall this year and are projected to be down again next year.

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The Committee concluded that even though the Fund's bonding capacity at present is limited, interest rates are very low and there are opportunities right now to leverage significant amounts of outside funding for harbor priority projects that are too good to pass up. A targeted and limited investment in vital harbor infrastructure seems prudent and feasible. The Port and Harbor Enterprise Fund is expected to be self sustaining and good business practices require that investments be made in the facilities that support port and harbor operations. The port and harbor is an economic engine that creates jobs and generates revenue for the community. The revenues raised through a bond sale would be dedicated and directed right back into the facilities that port and harbor customers use and benefit from.

Bond revenues would be used to provide the required local match for other funding sources (with the exception of the harbor office). Therefore, five of the projects recommended for approval have significant funding sources associated with them. The City has already received a grant to pay for engineering and design for four of them. The Committee concluded that there was room for harbor fee increases sufficient to pay for bonded indebtedness up to \$5 or 6 Million. The Committee recommends exploring a staged call on bond revenues so that fees could be increased incrementally, and not all at once.

For a six million dollar bond sale and a twenty year amortization period, it is estimated that annual bond payments, including principal and interest, would be between \$300,000 and \$400,000. Closing costs will be minimal if the City goes through the Alaska Municipal Bond Bank and uses its attorney, Tom Klinkner as Bond Counsel. Harbor fees would have to be raised about 12% across the board to cover those payments unless other reductions in Port and Harbor expenses were achieved. The Committee also looked at targeted increases in specific fees for user groups that would benefit by particular projects. The City would be required to have a reserve account in place in the amount of \$500,000 to cover impending default and/or routine maintenance.

The City has received a grant Memorandum of Understanding for the load and launch ramp reconstruction project. Phase I of the project, engineering and design, will be fully funded up to \$350,000 with no local match requirement. The construction phase will be funded with federal money at 75% with a 25% local match. It is very likely that the 25% local match will be covered by the State of Alaska, either through Department of Fish and Game Sport Fish Program funds or through a State Harbor grant. Therefore, there is a good possibility no match from the City will be necessary. That could save the City an estimated \$837,500 in bonded indebtedness or a drawdown of port and harbor reserves.

The City will need to develop more current and precise project cost and local share estimates. This will be provided in more detail later if the Council approves the bonding recommendation in concept and authorizes us to move on to the next steps in the process. Council approval will be needed at a number of steps along the way.

The Recommended Projects

Following is a list of recommended projects to be included in a proposed revenue bond sale. They are listed in order of priority as scored by Committee members.

Project Estimated Cost City Share Matching Funds

Load and Launch Ramp \$3,350,000 \$837,500 Federal / State

Ramp 3 Gangway \$1,700,000 \$850,000 State Harbor Grant

System 5 Upgrades \$530,000 \$265,000 State Harbor Grant

Harbor Float Replacement \$3,500,000 \$1,750,000 State Harbor Grant

Harbor Office \$2,875,000 \$2,875,000 -----

Harbor Entrance Erosion Control \$600,000 \$300,000 State Harbor Grant

TOTAL \$6,877,500

-790,000 (secured design money)

TOTAL ESTIMATED BOND SALE \$6,087,500

FISCAL NOTES: The estimated costs presented above are total project costs. More refined and precise cost estimating will be provided as part of the bond application and approval process. The amount already secured for engineering and design (\$440,000 from Denali Commission and \$350,000 for L&L Ramp) is subtracted at the bottom. This has the effect of reducing the City's overall bonding costs. Also, it is probable that the City share for reconstruction of the L&L ramp will also be eliminated. If so, that reduces the bond sale to about \$5 Million.

These projects have been bundled into one project that was approved as part of the newly adopted CIP List. A good description of each project, the estimated costs, and the anticipated matching funds are included there. The project is entitled "Harbor Improvement Revenue Bond Projects" and is attached for your information.

HARBOR OFFICE NOTES: The Committee noted that the criteria used to select the recommended projects was not well suited for evaluating the merits of this particular project. A new harbor office has been on the City CIP List for many years. The facility is a patchwork of older buildings cobbled together and is easily number one on the City's list of buildings that need to be replaced. The building does not meet many of today's building code standards and it is not energy efficient. Replacing this building is a health and safety issue, both for the employees that work there and for the general public that conducts business there. Replacing this building would enable the staff to work more efficiently and productively and therefore, provide better service to the public. It is the intent of

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the Committee to explore the possibility of securing renters in the new facility to help cover bond payments.
RECOMMENDATION: Approve Resolution 11-099. Authorize the City Manager to proceed with the next steps including preparation of a bond sale application to the Alaska Municipal Bond Bank and the necessary documents for Council approval authorizing a bond sale.

Related Resolutions **Memorandum - Related Resolutions:** [Resolution 11-099 Revenue Bond Sale Application to Finance Construction of Six Top Priority Capital Projects Within the Homer Harbor](#)

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