

Memorandum 12-076 Port and Harbor Improvements and Recommended Revenue Bonding Plan

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MEMORANDUM 12-076

TO: Mayor Hornaday and Homer City Council
FROM: Port and Harbor Improvement Committee / Barbara Howard, Chair
DATE: May 14, 2012
SUBJECT: Port and Harbor Improvements / Recommended Revenue Bonding Plan

Introduction

The Port and Harbor Improvement Committee was established by the City Council through the adoption of Resolution 11-060 during the summer of 2011. The Committee was formed "to establish a port and harbor revenue bonding plan." The Council formed the Committee because it recognized that there are significant maintenance, repair, and replacement issues at the port and harbor which are accumulating and not being addressed adequately. The port and harbor is a vitally important public asset and economic engine and it must be maintained properly. It was understood that the City could not continue to wait until someone else provided the necessary funding. The Committee held its first meeting on August 18, 2011 and it has conducted a total of 12 meetings since. The Committee provided its first report and recommendations to the Council in November as required by the enabling resolution.

The Work Plan

The Committee addressed the scope of work in a thorough and methodical manner. It worked hard to make sure it understood all relevant variables in the decision making matrix. This included the need and justification for the proposed projects, the finances of the enterprise fund and its capacity to incur debt, and the details of potential funding sources.

During the course of its work, the Committee considered the following information:

- Several presentations by the Finance Director which focused on the fiscal health of the enterprise fund, the most recent audit of the fund and recommendations by the auditors, and the status of depreciation reserves.
- A presentation by the City Attorney on the bond approval process; specifically actions that would be required of the City Council.
- A presentation by the Director of the Alaska Municipal Bond Bank regarding the bond application process and specifically, what types of financial information and fiscal capacity would be required in order for a bond sale to be approved.
- A presentation by the Port and Harbor Director regarding the need and justification for priority projects including those contained in the enabling resolution and others either on or proposed for the CIP List.
- An analysis by the Finance Director regarding the fee increases that would be required in order to support different levels of bond payments and transfers to the depreciation fund.
- Updated and more precise project cost estimates provided by engineers using funds appropriated by the Council.
- A rate and fee schedule comparison between Homer and other regional ports and harbors provided by the Port and Harbor Director.
- A fee by fee analysis and discussion regarding which fees could reasonably be raised and their nexus to users that would benefit by the improvements.
- Detailed information on the Municipal Harbor Matching Grant Program; the proposed source of funds to be leveraged by revenue bonds.
- Information regarding alternative funding sources and project descriptions for the harbor Entrance Erosion Control and Harbormaster Building projects.

Using the information referenced above, the Committee selected a list of projects with the help of an objective set of criteria which included, but was not limited to, health and safety, the economic and/or revenue impacts of the project, and whether the project was eligible for matching funds. The Committee also established an upper ceiling on how much debt the enterprise fund could reasonably assume and proposed fee increases accordingly.

Public Outreach and Education

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The Committee recognized early on that incurring debt and raising fees was going to be a tough sell and that it was imperative to get as much information out to the public as possible. It took a draft list of projects and proposed fee increases to the public and solicited input. To that end, the Committee undertook a number of steps which included:

- Power point presentations for the Council and for other boards and commissions
- Staff and Committee member attendance and participation at Port and Harbor and Economic Development Commission meetings.
- Presentations to affected user groups
- Development of a informational web page
- Media interviews
- Development of a Q and A informational brochure
- A Coffee Table radio discussion devoted to the topic.
- Public hearings including a hearing conducted by the Port and Harbor Commission.

Fine Tuning the Proposal

After receiving public input and reviewing the motions adopted by the Port and Harbor Commission, the Committee fine tuned its proposal and recommendation to the Council. In summary, the Committee amended the proposal as follows:

- It deleted two projects (Harbormaster Building and Harbor Entrance Erosion Control) that are not eligible for a state match and would be funded entirely by bond sale proceeds. This reduces the amount to be borrowed. The Committee urges the Council to identify alternative funding sources for those projects.
- It eliminated the proposed imposition of a \$2.00 "head tax" on commercial passenger vessels
- It voted to raise fees in stages beginning this year in order to reduce impacts to harbor users, increase deposits into reserve accounts, and demonstrate to the Bond Bank and the State of Alaska that the City has the financial capacity and the revenue stream in place to make its bond payments and provide a 50% match.
- It added the Load and Launch Ramp to the list of projects to be partially funded by the Municipal Harbor Matching Grant Program in the event that a local 25% match for federal dollars was needed.
- It voted to recommend bonding for \$5 Million which is a little more than the estimated cost of the remaining projects. It did so in anticipation of possible increases in construction costs and other unforeseen circumstances.
- It voted to keep proposed fee increases in place (with the exception of the "head tax"), even though two projects were dropped, so that any excess in revenues over and above what is needed for bond payments could be deposited into the depreciation reserves as recommended by the City auditors. The proposed 10% increase in ice fees are to be used for repair and replacement at the ice plant.

The Proposal

The Committee recommends that the Council sell revenue bonds for three projects. The proceeds of the bond sale would provide the required 50% local match for grant funding through the State Municipal Harbors Matching Grant Program. The projects are Ramp 3 Gangway and Approach, Harbor Float Replacement, and System 5 Upgrades. The total cost of these three projects is \$8,549,000.00. The City would be responsible for half of that amount or \$4,274,500.00. As noted above, the Committee recommends bonding for \$5 Million. If the amortization schedule was twenty years, the annual bond payment would be \$250,000 plus interest.

The Committee recommends that the revenue to make the bond payments be obtained by raising the fees for fuel wharfage, moorage, ice, and dockage. A more detailed description of the fee increases and project funding is attached.

RECOMMENDATION

The Committee recommends that the City Council adopt this proposal and course of action and authorize the City Manager to:

- Prepare an application for funding for these projects through the Municipal Harbors Matching Grant Program
- Prepare a bond sale application
- Prepare resolutions amending the Fee Schedule and Port and Harbor Tariff for adoption in June.

Related Resolutions **Memorandum - Related Resolutions:** [Resolution 12-043 Capital Improvements in the Harbor and Funding by Grants, a Revenue Bond Sale, and Fee Adjustments](#)

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