



City of Homer

www.cityofhomer-ak.gov

Office of the City Manager

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Memorandum

TO: Mayor Castner and Homer City Council
FROM: Katie Koester, City Manager
DATE: February 22, 2019
SUBJECT: February 25 Council Meeting

AML Trip Report

I returned Thursday, February 21st from a whirlwind trip to Juneau with Councilmembers Lord, Smith and Aderhold. There was plenty to talk about with the release of Governor Dunleavy's budget just days before the congregation of municipal leaders from across Alaska arrived in Juneau for AML's legislative fly-in. The proposed cuts will have catastrophic impacts to municipalities around the state, not to mention the University, ferry system, and a multitude of yet unknown statewide impacts. Legislative Budget and Audit was scheduled to have an overview to present to us, but at the time of the conference, they did not have enough information to adequately determine the impacts. From what I can glean thus far, the direct effects of the proposed cuts on the City of Homer budget are listed below. However, that does not mean other items that will impact Homer won't get put on the table either by the Legislature, proposed in subsequent years, or implemented by the Borough as they struggle with funding cuts. We will need to be watching closely and stay engaged.

Direct Financial Impact to City of Homer Regarding Proposed Cuts (as of 2-22-19): Up to \$249,510 (including Community Assistance)

- Community Assistance: the future of this program is unclear; it has not been eliminated but the funding was rolled into the General Fund. We received \$177,000 in Community Assistance in 2019.
- Shared Fisheries Tax. The Governor has proposed diverting all of this funding to General Fund (right now it is split between the State and municipalities where fish is processed based on poundage, a formula we have long argued against). The Enterprise Fund received \$62,000 last year in fisheries tax.
- Oil and Gas Property Tax. The Governor has proposed legislation that diverts all property tax revenue on oil and gas to the state. Last year the City of Homer budget included \$10,510 in oil and gas property tax.

The indirect long term impacts and general uncertainty will far outweigh the direct impacts for 2019. Changes to oil and gas property tax, education funding, and school debt bond reimbursement leave a large hole in the Kenai Peninsula Borough budget. Not only will this impact the Borough's ability to provide services like education, they will also be looking to make up that revenue in new taxes or cuts that we cannot anticipate. Impacts to our overall economy will be significant; under the Governor's proposed budget, the mere existence of the Kachemak Bay Campus is uncertain, ferry service becomes seasonal, and untold impacts in reduced services and penny pinching here and there are bound to come.

Expect to hear from AML through this legislative session with calls to action to come down to Juneau and lobby the legislature. They have also asked for a letter enumerating the impact of the proposed cuts to municipal budgets. With your consent, I will respond to AML with the above mentioned direct impacts and follow up with something more robust that details the City of Homer position in a packet. Content for this letter can be a topic of discussion for our legislative worksession the first week of March.

Meetings with Delegation

We met with Sen. Stevens and Rep. Vance on Monday and outlined the City's concerns with the proposed budget. Sen. Stevens emphasized the unprecedented nature and severity of this budget. Even with the House organizing only days before our arrival under a coalition leadership, he was uncertain the Legislature would have enough votes to override a veto from the Governor, very much giving Governor Dunleavy the upper hand in any negotiations. Rep. Vance was more optimistic the outcomes would be positive for the state in the long term and encouraged patience as the Legislative process played out. She asked for information on the impact of proposed cuts to the City, which we will share with both offices. We were able to dine with Rep. Vance and her staff on Monday night, a great opportunity for informal conversation regarding the challenges facing the state and Homer.

AML Sessions

Scheduling for AML sessions was turned upside down with the proposed budget being announced only days beforehand. Much of the time was spent discussing legislative strategy and a fair amount of venting. Many communities were looking at the evaporation of much of their budget under the proposal, which made for some emotional discourse. We heard from both Senator Sullivan and Senator Murkowski on federal issues. Alaska Conference of Mayors organized a panel on how to strengthen police recruitment. An impactful takeaway I had was that the cost of an officer leaving an organization in recruitment, training, and lost efficiency ranges from \$110,000 to \$190,000. Putting a number to retention really emphasized how important it is to value our employees and provide a working environment that promotes longevity. Former Senator Ben Stevens has been hired by the Governor to address public safety concerns as a result of SB 91 and highlighted legislation the Governor has introduced to repeal some of those changes. I will include this legislation for the legislative worksession as it may be of interest to the Council.

Online Sales Tax

As you know, the City of Homer has contributed to AML's efforts to work with a consultant on investigating the feasibility of creating a structure within AML (similar to AMLJIA or AMLIP) that collects and reminds online sales tax. This group met for an update in Juneau from Executive Director of AML, Nils, and Larry Persily, former KPB Chief of Staff who AML has hired to work on the project. One of the first hurdles of this project will be standardizing definitions. For the City of Homer, the Kenai Peninsula Borough collects sales tax on our behalf and we adopt their code by reference. This means we need to engage through the Borough on any concerns we have with the definitions and all be on the same page. Luckily, each municipality can maintain its own exemptions and sales tax caps. AML is working on an executive summary of the process and will likely schedule a joint meeting in Anchorage in May with Finance Directors of participating communities to work out the details. Additional details that will need to be worked out include what the threshold of commerce is for a business to trigger remitting sales tax in the state and what the governance structure looks like. I encourage the City to stay engaged in this conversation as online sales tax collection could have a tremendous impact on our sales tax revenue. I will be reaching out to the Borough Finance Director to see how they plan to engage and how we can work together.

Agency/Department Meetings

United State Coast Guard

We met with USCG to solicit their help and feedback on the Large Vessel Harbor Project. I was encouraged that our meeting included engineers and planners that could advise on some of the project details, and Port and Harbor Director Hawkins was there to provide additional detail on traffic patterns and demand for moorage. However this was a rubber meets the road conversation, and the first time we asked for something tangible instead of general support and project updates. Staff was very reluctant to provide a direct letter of support for the project due to process and political constraints. We are working with them to get information on the challenges they have with their current moorage, plans for the future, and specs necessary for the Cutter class vessel, the Hickory, which we would be moving from the Pioneer Dock to the Harbor with this project. Admiral Bell also introduced the possibility that the current 110 class cutter could be replaced with a small boat station. I understand this to mean a 47' response/rescue vessel and most likely another smaller 27' range support boat.

Department of Commerce and Economic Development

We met with Special Assistant Parady to inquire if the state plans on changing how it interprets allowable use of the commercial vessel passenger tax funds given the recent ruling on the Juneau case that restricts their head tax dollars to investments that are spent directly on the vessel. This is important to us, because we have received State and Borough approval to forward fund the Ramp 2 restroom project and want to make sure this remains an acceptable use of funds under the program. However, after talking with Juneau, there remains a lot of uncertainty over the ruling and how it might be interpreted. This is a topic we will need to be following, but it is apparent that nothing has been decided yet.

Department of Transportation and Public Facilities

We met with DOT/PF Deputy Commissioner Siroky and Special Assistant Lessman and highlighted 3 priorities: 1) The condition of Pioneer Avenue and East Hill; 2) runoff issues in Baycrest subdivision; and 3) the need to reinforce the Homer Spit to protect against erosion and invited them to meet with City of Homer and Army Corp on the topic. I have a response to priority 1 (below), and a promise to follow up on the letter Council drafted to Commissioner MacKinon dated January 19th on drainage from the Sterling Highway and the effects it has on downhill properties. The lack of familiarity with the Homer Spit was discouraging, but we were promised some follow up to initiate the conversation and understand the process through which DOT funds projects that protect critical infrastructure such as highways.

From Special Assistant to the Commissioner Mike Lesman:

Pioneer Avenue Pavement Preservation

This project is on the Dept's Tentative Advertising List:

<http://dot.alaska.gov/procurement/awp/awp-tas.cfm>. DOT&PF has every intent to advertise this project late March/early April, go through the bid process to select a contractor and then award a construction contract to that winning bidder. Until those steps are complete, a construction start date is only a guess. Our hope is the contractor can start as early as May, but Alaska's weather and the contractor's own calendar/schedule of work are both important factors.

While we don't expect any snags with this project at this point, last minute right-of-way acquisition challenges; changes to FHWA requirements; permitting changes; public and/or political opposition; and other factors can also influence the timing of road construction project scheduling in Alaska.

East Hill Road Pavement Preservation project

Please see the attached Fact Sheet for the East Hill Road Pavement Preservation project. The project may include striping, signage, drainage improvements, dig outs, curb ramps, guardrail, lighting and utility relocation. Construction is scheduled to begin in 2020.

East Hill Road Maintenance work

From an M&O (maintenance & operations) perspective: M&O had an emergency culvert repair / dig-out on East Hill Road that happened in December 2018. The weather didn't allow us to pave the surface and the material used has since blown out, so our crew is now using D-1 material and grading it when it gets rough. The plan is to pave that section of the road ASAP when weather allows, which will likely be late spring. Pothole patching is a continual exercise on East Hill and I'm told the crew also intends to repair damaged guardrail and do some brush cutting. Lastly, the road will be restriped this summer.

Meetings First Week of March

We have a legislative worksession scheduled for the first week of March. Councilmember Smith has requested that this worksession be followed up with a joint worksession with the Kachemak City Council on Ordinance 19-09 and City of Homer water services in the area. Originally I scheduled this for Monday to be consistent, however I will be in Anchorage all day for meetings with Enstar Natural Gas to discuss Tariff filing TA301-4. If Council is ok with it, I would like to propose we schedule the Legislative worksession for 4pm on Tuesday March 5th and the Kachemak City joint session immediately following at 5pm.

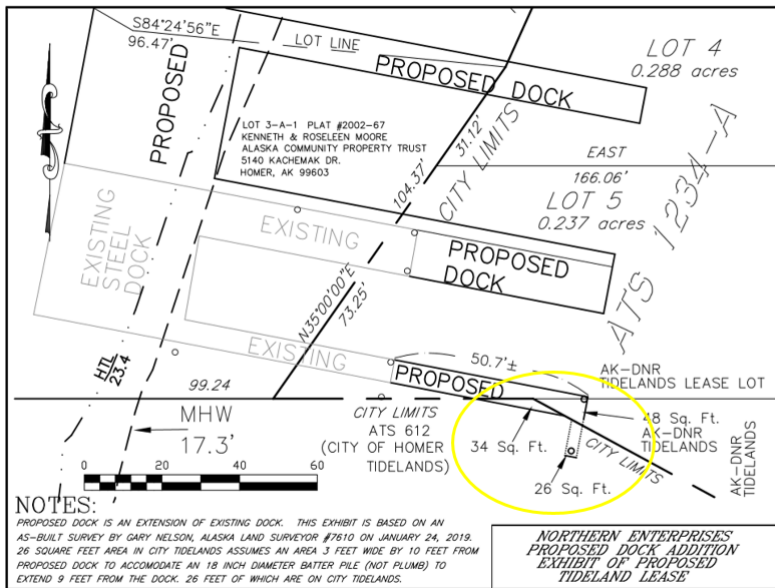
February 14 meeting with Bond Bank

On February 14th Finance Director Walton and I participated in a kick off call with municipalities around the state looking to bond for capital projects this spring with the Alaska Municipal Bond Bank (AMBB). During the call AMBB asked if any municipalities wanted to reconsider issuances due to the fiscal uncertainty facing the state and their municipal budget, including debt bond reimbursement programs by the state that are unfunded in the proposed budget. The timeline for issuance of the bonds is May 1, 2019, which would also make the funds available at that date. Two payments will be due each year (interest only and interest/debt service). The interest only payment will be due each year on November 1 and the interest/debt service payment will be due each year on May 1. In 2019, we will only make one payment (interest only) in November. At the March 11th Council meeting I will be presenting you with a Resolution authorizing the City to enter into an agreement with the Bond Bank. I would like to receive Council input on the term of the bond in advance of the resolution. A municipal bond is not callable for the first 10 years, which means we cannot pay down principal until then. Any dedicated funds remitted in excess of the payment amount can be invested in an account that does not exceed the rate of return of the bond, which is not a difficult bar given our conservative investment policy. However, bonds are available in 10, 15, and 20 year increments and I am considering bonding for 15 years instead of 20 (the original time frame we considered). A 15 year bond would save the City \$700,000 in interest payments over 15 years (not taking into account what we may be earning on invested funds). If sales tax returns follow inflation trends, this will generate sufficient funds to meet the 1.2 debt service ratio Council established (see attached schedule). Nevertheless, this approach does come with increased risk, especially given the current climate of fiscal uncertainty state-wide.

Northern Enterprises Boat Yard, Inc. interested in leasing City tidelands

Northern Enterprises Boat Yard, Inc. is a Homer-based corporation specializing in vessel haul out, repair, and storage. They are working on constructing a new dock capable of supporting a Marine Travel Lift

Station to haul out larger, heavier vessels and may even secure a federal grant to help with this project. The City of Homer sees this project as a great economic opportunity for the community since no travel lift station with this capacity exists in Homer. Currently, when a larger vessel needs to be hauled out, Seward, Kodiak, and King Cove are some of the nearby communities offering this service since Homer cannot. This proposed project will require Northern Enterprises Boat Yard, Inc. to use sixty square feet of City tidelands parcel ATS 612 (yellow highlighted circle below). At the March 11th City Council meeting, staff will bring before Council an ordinance and long-term lease for Northern Enterprises Boat Yard, Inc. to use sixty square feet of City tidelands. Since this proposal does not involve Homer Spit property, Port and Harbor Advisory Commission review is not required. In the meantime, the City will draft a letter to Northern Enterprises Boat Yard Inc., which will hopefully assist them in moving forward with the state DNR side of the property line.



- Enc:
- 20 and 15 year Police Station Bond Scenarios
 - DOT East Hill Fact Sheet
 - Letter to Northern Enterprises Boat Yard, Inc.

City of Homer
Police Station Bond
Debt Service Schedule

20 Year Bond Option					
Period Ending	Interest Amount	Annual Bond Payment	Estimated 0.30% Sales Tax	Debt Service Ratio	
11/1/2019	106,312.36	106,312.36	539,768.00	127,574.83	
2020	209,425.00	344,425.00	542,466.84	413,310.00	
2021	204,600.00	344,600.00	545,179.17	413,520.00	
2022	198,900.00	343,900.00	547,905.07	412,680.00	
2023	192,250.00	342,250.00	550,644.60	410,700.00	
2024	184,500.00	344,500.00	553,397.82	413,400.00	
2025	176,375.00	341,375.00	556,164.81	409,650.00	
2026	167,875.00	342,875.00	558,945.63	411,450.00	
2027	158,875.00	343,875.00	561,740.36	412,650.00	
2028	149,375.00	344,375.00	564,549.06	413,250.00	
2029	139,375.00	344,375.00	567,371.81	413,250.00	
2030	128,875.00	343,875.00	570,208.67	412,650.00	
2031	117,875.00	342,875.00	573,059.71	411,450.00	
2032	106,375.00	341,375.00	575,925.01	409,650.00	
2033	94,375.00	339,375.00	578,804.63	407,250.00	
2034	81,750.00	341,750.00	581,698.66	410,100.00	
2035	68,375.00	343,375.00	584,607.15	412,050.00	
2036	54,375.00	339,375.00	587,530.18	407,250.00	
2037	39,750.00	339,750.00	590,467.84	407,700.00	
2038	24,375.00	339,375.00	593,420.18	407,250.00	
2039	8,250.00	338,250.00	596,387.28	405,900.00	
totals	2,612,237.36	6,952,237.36	11,920,242.46		

15 Year Bond Option					
Period Ending	Interest Amount	Annual Bond Payment	Estimated 0.30% Sales Tax	Debt Service Ratio	
11/1/2019	104,778.89	104,778.89	539,768.00	125,734.67	
2020	205,250.00	415,250.00	542,466.84	498,300.00	
2021	197,800.00	412,800.00	545,179.17	495,360.00	
2022	189,000.00	414,000.00	547,905.07	496,800.00	
2023	178,750.00	408,750.00	550,644.60	490,500.00	
2024	166,875.00	411,875.00	553,397.82	494,250.00	
2025	154,375.00	409,375.00	556,164.81	491,250.00	
2026	141,250.00	411,250.00	558,945.63	493,500.00	
2027	127,500.00	407,500.00	561,740.36	489,000.00	
2028	113,125.00	408,125.00	564,549.06	489,750.00	
2029	98,000.00	408,000.00	567,371.81	489,600.00	
2030	82,125.00	407,125.00	570,208.67	488,550.00	
2031	65,375.00	410,375.00	573,059.71	492,450.00	
2032	47,750.00	407,750.00	575,925.01	489,300.00	
2033	29,250.00	409,250.00	578,804.63	491,100.00	
2034	9,875.00	404,875.00	581,698.66	485,850.00	
totals	1,911,078.89	6,251,078.89	8,967,829.84		

Chart Assumptions:

- The estimated sales tax growth was derived by applying last year's CPI (0.5%).
- The debt service ratio was established by council to be 1.2. The column above details the dollar value that is necessary in sales tax collection each year in order for the ratio to be at 1.2.



On behalf of the crew of
CGC NAUSHON, I extend my
heartfelt and sincere thanks
to the City of Homer for
your overwhelming support over
this Holiday season. I cannot
express enough appreciation
for your amazing contributions
keeping the community informed
and coordinating efforts to make
Homer's hospitality known among
our Coast Guard family. I meant
a great deal to me and my crew!
THANK YOU!

Your Obedient Servant
Liddy Miller, LT
CO, CGC NAUSHON





FACT SHEET

East Hill Road Pavement Preservation Project

CFHWY 00297/0001600

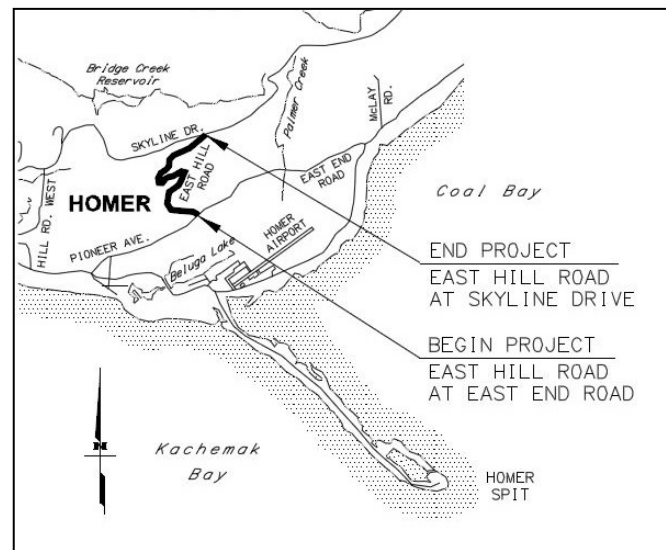
Project Overview

The Alaska Department of Transportation & Public Facilities to mill and resurface the entire length of East Hill Road in Homer, Alaska. This project would extend the service life and improve the overall safety of the roadway.

Project Scope

The proposed work would include:

- Resurface East Hill Road from Skyline Drive to East End Road
- Clear vegetation within ROW limits to improve visibility and safety
- Drainage improvements, including culvert replacements and ditch maintenance
- Repairing or replacing guardrail, guardrail end treatments, lighting, signage, and striping
- Upgrading existing facilities to comply with the American with Disabilities Act
- Utility relocations, as needed



Schedule

Preliminary Engineering studies are currently being completed. Environmental, geotechnical and drainage investigations will continue over the fall and winter months of 2018. Initial Design plans are anticipated to be produced in Spring 2019. Construction for the proposed project is anticipated to begin in 2020, pending availability of funding and other factors.

Contact Information

If you have any questions or would like to share ideas regarding the East End Road Pavement Preservation project, please contact DOT&PF at the information listed below:

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Kinney Engineering, LLC.
Public Involvement Project Manager
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Northern Enterprises Boat Yard, Inc.
51140 Kachemak Dr.
Homer, AK 99603

February 25, 2019

To Ken and Roseleen Moore of Northern Enterprises Boat Yard Inc.,

It is my understanding Northern Enterprises Boat Yard Inc. is in the planning stages of a dock expansion project in order to support a Marine Travel Lift Station. This Marine Travel Lift Station will be able to haul out larger, heavier vessels that otherwise could not be serviced in Homer. As you know, when a larger vessel needs to be hauled out, Seward, Kodiak, and King Cove are some of the nearby communities offering this service since Homer cannot.

The City of Homer sees your expansion project as a great economic opportunity for the community as the City has often been asked when a marine service of this kind could be offered to Homer's fleet. Since the proposed dock expansion design requires you to use sixty square feet of City tidelands, staff will bring an ordinance and draft lease before City Council on March 11th.

Please feel free to contact my office directly with questions, (907) 235-8121 ext. 2222 or citymanager@cityofhomer-ak.gov.

Best,

Katie Koester
City Manager

