

Session 11-03, a Regular Meeting of the Port and Harbor Improvement Committee was called to order by Chair Howard at 5:30 on August 25, 2011 at the City Hall West Conference Room located at 450 Sterling Highway, Homer, Alaska.

PRESENT: Hartley, Hawkins, Howard, Howard, Lewis,

ABSENT: Wythe

STAFF: City Manager Wrede
Deputy City Clerk Jacobsen

AGENDA APPROVAL

The agenda was amended to discuss new business item A before pending business.

The amended agenda was approved by consensus of the Committee.

PUBLIC COMMENTS REGARDING ITEMS ON THE AGENDA

There were no public comments.

RECONSIDERATION

There were no items for reconsideration.

APPROVAL OF SYNOPSIS

A. August 25, 2011 Meeting Synopsis

The synopsis was approved by consensus of the Committee.

VISITOR/PRESENTATIONS

No visitors were scheduled.

STAFF & COUNCIL REPORTS

There were no staff or council reports.

PUBLIC HEARING

No public hearings were scheduled.

PENDING BUSINESS

A. Review of Financial Information

Finance Director Mauras was not in attendance and there was no discussion on this agenda item.

NEW BUSINESS

A. Review of Revenue Bonding Process and Discussion with Deven Mitchell, Director of the Alaska Bond Bank via Teleconference if Available

Deven Mitchell, Executive Director of the Alaska Municipal Bond Bank and also Debt Manager for the State of Alaska, provided an overview of the Bond Bank ratings and activities and reviewed the information he provided for the packet.

He explained that if the City intends to bond for projects they would need contact the bond bank and coordinate a financing team that would include an attorney to act as bond counsel and help draft the ordinance required to issue bonds at the City level. The bond bank has bond counsel as well for drawing up loan documents; a financial advisor to assist with structuring the transaction, and identify and achieve the lowest cost of borrowing on bonds. A financing schedule would be established outlining steps to take the transaction to closing.

He understands the Committee is interested in a revenue bond for the Port and Harbor Enterprise fund which is possible and the bond bank provides more value in that revenue bonds don't price as well and the bond bank would sell general obligation bonds to fund a loan for purchase of a revenue bond at the local level. The revenue bonding process requires more detail in the loan agreement and more requirements placed on the harbor enterprise than would be experience with a general obligation bond. He has experienced communities that have used both types of bonds for harbor projects.

A revenue bond has specific backing through a specific revenue stream, in this case the Harbor Enterprise, and the users of the facilities constructed pay the cost of the project. There can be a variety of revenues pledged to pay debt service. He explained that covenants are made at the point the bonds are sold as promises made to the investors in the bonds. The covenants would limit the ability to sell additional debt, would mandate certain operational requirements for the enterprise, and that the enterprise is going to establish rates and charges to generate a level of revenue relative to the debt service. Depending on the historical performance of the enterprise there could be additional covenants relating to operating reserves for funding of the debt service payment account and installments in advance of actual debt service. There is a balancing act with revenue bonds that you don't see with general obligation bonds. General Obligation bonds are backed by general credit and taxing powers of the issuing community and require voter approval.

Mr. Mitchell expressed his understanding that the Harbor enterprise fund has been run to cover cost of operations which is normal for historical way Alaskan communities have run their harbors because the State used to provide for capital costs. It is now being recognized that infrastructure is wearing out and the new State program for covering cost of infrastructure is only for a portion of the cost so enterprises now have to find ways to come up with a match for the State funds. The important thing from the bond banks perspective in having the enterprise support a revenue bond is that rate and charge changes are initiated to support the debt service created by the bond issuance in advance of the bond issuance. He recognized that raising rates can be hard to do so it is important to help the users understand the benefits of the harbor improvements and get their buy in.

Mr. Mitchell reviewed the last pages of the presentation and answered questions from Committee members.

Mr. Hawkins asked how the process went for Seward, who recently used the revenue bonding process. Mr. Mitchell suggested contacting the Seward Finance Director for specific feedback, but commented that the users were generally supportive of the improvements, and Seward did a good job of letting people know what was happening as a result of the project and letting them know the means of paying for the project.

Chair Howard asked how much history of the revenue increases needs to be in place prior to bonding. Mr. Mitchell explained that there doesn't need to be years of history with the specific rate or fees to move forward; there just needs to be an approved methodology for generating the revenue required for payment. Seward had a summer of history with their head tax. Having the approved methodology is the key. She questioned whether the general fund would become a co-signer. Mr. Mitchell explained that when using the bond bank if there is an inability for the enterprise fund to raise the money required to pay debt service and a default, the bond bank would take revenue sharing or shared taxes and fees like fish tax, or a capital grant or something that would flow to the community.

Mr. Lewis asked, in the instance of a \$10 million bond paid out over 20 years, what would be an approximate amount that needed to be raised each year. Mr. Mitchell suggested roughly \$75,000 to \$80,000 per million per year.

Mr. Hartley questioned matching funds for State assistance that was mentioned earlier. Mr. Mitchell responded that would be City staff's responsibility to deal with matching grants.

City Manager Wrede questioned if the 1.25 rule to be able to cover bond payments also includes required maintenance. Mr. Mitchell explained that the coverage could be used to cover maintenance, other projects, or put in an operating reserve. It just wouldn't be money that would be plugged into regular operations. Regarding other collateral, Mr. Mitchell explained that they are more interested in the historical operation of the enterprise, the consistency of the enterprise, the viability of the enterprise and viability of leveraging, meaning is the enterprise able to support the loan. Cash reserves or depreciation reserves are

also important in that they are features that demonstrate the viability of the activity. Repair and replacement reserves can be mandated in the bonding covenants, and other reserves needed for paying costs associated for paying costs associated to the harbor system are going to be credit positive.

Mr. Howard asked how many years the enterprise fund has to continue with the 25% over collect. In four years there would be a full year payment. He also asked what the cost is to go through the steps for bonding. Mr. Mitchell said that the expectation is that the over collect would be used the subsequent year for non operating costs. It is not the intent to have rolling coverage, but to use the over collect to keep the harbor up to date and well run rather than have the extra funds sitting there. Regarding the cost of the process, he suggested contacting bond counsels to find out their charges. He anticipated the cost at about \$20,000 to \$30,000. The fee is typically paid at closing and would be paid out of the bond proceeds.

There were no further questions and Chair Howard thanked Mr. Mitchell for participating with the Committee tonight.

There was discussion that currently the Harbor brings in approximately \$3.6 million per year. A 10% fee increase would yield about half of what is needed for a \$10 million bond and enough to bond for \$5 million. They need to brainstorm on how to structure the revenue streams to make this work. It was suggested that fees be increased across the board rather than having one group paying more than another. Other points expressed were that there are some users who have a larger advantage that aren't contributing as much as they should and others who use the harbor as their store front and could contribute more through moorage or through a head tax. There is a reality in the need to increase launch fees as the harbor needs a new launch facility and the State is willing to step up to pay 75% of the cost. We need to move on getting that funding. There was discussion of what effect increasing the launch fee would have on revenue, and also on leakage where people don't pay when there isn't an attendant in the building. Cameras could be installed to help reduce the leakage.

Mr. Hawkins noted that the Denali Grant funding came in and the City should see their portion in November. The funding is for engineering for the ramp 3, A and J floats R and S replacement and the system 5 electrical upgrade. It requires a 25% local match that will come out of reserves. He added that this upgrade is one that will be a money maker. Users of system 5 have expressed a willingness to pay more to be able to plug in. There was discussion that it might be feasible to bond for it as a stand alone project or wrap it up with the launch ramp project. It doesn't encompass the big picture, but would be a good start.

Question was raised as to whether the General Fund reserve could loan the money to the Harbor, keeping the money in the family so to speak. It would help avoid the issuance cost on the smaller projects. It is a concept the Council might be willing to talk about.

INFORMATIONAL ITEMS

There were no informational items.

COMMENTS OF THE AUDIENCE

Kevin Hogan encouraged the group to focus on identifying new revenue sources rather than increasing the regular fees. He suggested an example of having rental space for meetings in the new Harbormaster's office, or a head tax. This is a good time to look at bonding.

COMMENTS OF STAFF

There were no staff comments.

COMMENTS OF THE CHAIR

Chair Howard had no comments.

COMMENTS OF THE COMMITTEE MEMBERS

Mr. Hartley said he is encouraged.

Mr. Howard said it was a good meeting.

ADJOURN

There being no further business to come before the Committee the meeting adjourned at 6:45. The next meeting is scheduled for September 8, 2011 at 5:30 at the City Hall West Conference Room.

Melissa Jacobsen, CMC, Deputy City Clerk

Approved: _____