

Session 13-09 a Special Meeting of the Port and Harbor Advisory Commission was called to order by Chair Ulmer at 6:00 p.m. on October 9, 2013 at the City Hall Cowles Council Chambers located at 491 E. Pioneer Avenue, Homer, Alaska.

PRESENT: COMMISSIONER CARROLL, HOWARD, ULMER, STOCKBURGER, ZIMMERMAN

ABSENT: HARTLEY

STAFF: PORT DIRECTOR/HARBORMASTER HAWKINS
DEPUTY CITY CLERK JACOBSEN

AGENDA APPROVAL

HOWARD/CARROLL MOVED TO APPROVE THE AGENDA.

There was no discussion.

VOTE: NON OBJECTION: UNANIMOUS CONSENT.

Motion carried.

PUBLIC COMMENTS REGARDING ITEMS ON THE AGENDA

Kevin Hogan said he appreciated the Finance Director's comments included in the Harbormaster's memo. He said they have had a considerable downturn in IFQ landings and the Port of Homer has dropped to number 3. When he was on Council and attended the IPHC meetings, and an industry spokesman told him they just made Homer number 2 port and said if you don't get your city to start decreasing rates we will make Homer number 3, and that is what they did. You have to be really sensitive to whose toes you are stepping on. In relation to the Northern Economics report he questions the cost estimating approach provided by R&M Consultants, he would like to know if that was part of the contract with Northern Economics or a separate contract the city paid for. He doesn't see \$19,000 worth of work in this presentation, and it's an embarrassment. He understands it's a draft, but if this is what we are getting it should be outsourced to the Junior High. He cautioned the commission regarding rate increases. When he started his business ice was \$45 a ton, and crane \$22 an hour. Now they pay over \$90 an hour for the crane and \$130 a ton for ice. He built an ice plant because he can't afford to utilize the City of Homer's ice for the bulk of his operations, and it is working for him. He hopes they allow public interaction in their discussions. This has to be looked at carefully, especially the fact that rates are not being applied uniformly out there, and he thinks they know what he is talking about.

NEW BUSINESS

- A. Memorandum from Port Director/Harbormaster Hawkins Re: Port of Homer Rate Study
 - a. Port of Homer Rate Study – Northern Economics, Inc.

Harbormaster Hawkins introduced Mike Fisher from Northern Economics, who participated telephonically. Mr. Fisher said he has been with Northern Economics for a little over 12 year, and spent a lot of his time working on ports and harbors. They have probably done a dozen or more rate studies around the state and recently a port in Texas, using five or six different approaches. He explained the

Harbor Economic Impact model is used to look at the effects of the economy on harbor activity. It is something the Harbormaster's Association has pursued with DOT in 2002, and the model was developed and published in 2003. It allows you to enter in fleet information, expenditure patterns for several different members of the fleet, personal craft, commercial fishing, charters, and so forth. It will tell you what kind of output you have, what kind of employment, income, and so forth, are generated throughout the Borough census area as well as the State.

Mr. Fisher said there are two studies in the report. One is development of the lifecycle cost model and rate recommendations based on that model. In the draft he didn't include the spreadsheet that contains the facilities, but will be sending it with the final report, which makes up about \$15,000 of the cost. It also includes a presentation to the City Council. A separate study looks at the economic impact of Buccaneer's rig being in the harbor. They just received data that one of the staff members will be working with that to prepare a standalone report, looking at the impacts within the community of having the rig.

Mr. Fisher reviewed Northern Economics' memo and explained what's included in the total replacement cost is a long list of facilities including estimates in today's dollars to replace them. There are other factors that could come into play that would change the numbers, including changing capital costs. In terms of the engineering work, that was about 25% of the contract that went to R&M to come up with replacement costs for each item. Internal discussion raised the question if it would make sense to get a couple of estimates, but in terms of this study they only used R&M's estimate.

He talked about the life cycle approach, explaining that it looks at the entire lifecycle of an asset from initial planning and construction, into operation and maintenance over its useful life, and it looks at replacement as well as salvage of an asset. In this case it is assumed that the Port and Harbor facilities will continue in perpetuum and looks at annual and major maintenance, as well as replacement, once the time comes. They looked at each of the assets in the port and came up with a time table for those costs. They also looked at operating costs currently, including maintenance and administrative costs, that factor in. For an average over the last 5 years about \$3.5 million goes in to operations and maintenance costs annually. Capital cost vary widely, some years there are none, and others times there may be as much as \$30 million over the course of several years.

In looking at life cycle costs for facilities as well as the operations and maintenance, that is where the \$23 million comes in. It is not a lump sum of everything together it's the present value of all the things, spread out over time. The net present value adjusts for inflation of all the different cash flows over the course of 40 years, and puts them in a single number today. Roughly 30% comes from capital costs and 70% from operations and maintenance. Operation and maintenance seems like a lot, but it includes the target of 3% of capital costs to spend each year on maintenance and setting aside for eventual replacement. This approach create a frame work to analyze costs of all facilities and O&M over time, to bring that to today's dollars, and figure out what it amounts to on an annual basis.

They made the assumption that, with the exception of grants that have been identified for specific projects, user fees would cover 100% of the cost. They also assumed that all transfers the Port currently makes to the City would continue, and maintained that in the model. They used a 40 year period for analysis, and a maintenance cost of 3% of total capital costs. He reviewed other aspects of his memorandum, including the allocation matrix, rate and inflation adjustments, capital cost data, and replacement cost information.

Mr. Fisher explained the end result is an overall rate increase of 57% is required if the port wants to cover all its operations, maintenance, and replacement costs. It varies by facility and they did their best they could with the allocations. If there is a change how overhead costs are allocated it could slightly change the result, but most facilities would require an increase. The fish dock and fish grinder have the largest required increase. After the initial report was submitted there was some internal discussion with staff that questions some of the assumptions including alternative funding besides user costs, harbor matching grants, and so forth. He referenced the sensitivity analysis that addresses ways that the costs could be decreased and the impacts of those changes.

He said they looked briefly at funding considerations and cost associations. They also considered changes in vessel sizes over time, as well as the idea of switching from a linear to a square foot based moorage rate. In instances where vessels are getting wider they have looked at an area based moorage rate multiplying the length and beam to establish a square footage. A tiered or graduated moorage rate is another option to consider.

In response to the questions raised in the Harbormaster's staff report Mr. Fisher commented regarding the new rate effect on consumer behavior. It is an issue that has come up and challenging to address. It isn't only Homer's facilities, but also the competitors. In the case of Sitka there are a lot of harbors around the area, there are also factors of where the fishing areas are and where people spend most of their time. One approach would be a survey of users, but it takes a long time, it's expensive, and people are going to respond in what they perceive to be their best interest. What some facilities have done is communicated well in advance the need to increase rates, and laid out a plan of how those rates will go into effect.

He said that they did not factor in personal property tax on vessels. Commissioner Zimmerman noted that sales tax is shown as a benefit to the City and the personal property tax is another benefit as well.

Mr. Fisher agreed most likely that the current harbor rate structure is market based, rather than a facility replacement rate structure, but he hasn't done the comparison. He understands they don't have automatic increases, but an expectation that each year there will be inflation adjustments. That isn't necessarily what the general market does, and put's Homer harbor in a slightly better position.

In relation to Harbormaster Hawkins' goal of \$1.4 million for depreciation this year, that is a good goal, but it does fall short to some extent. The problem with only relying on the depreciation amount is that inflation works against them. Depreciation will get you part of the way, but not all the way. Depreciation is a good target to start with, and many facilities around the state that don't even cover depreciation.

There was further discussion about revenues, grant funds, and how they tie in with the rate study; also replacement costs, and ways to bring the costs down to lessen the rate increase.

INFORMATIONAL ITEMS

COMMENTS OF THE AUDIENCE

Kevin Hogan commented over the history of the harbor there have been years that deprecation has been funded, and some that haven't. A number of years ago the reserve fund was tapped to pay for the fishing hole and the money hasn't been paid back to the harbor. It became the harbors responsibility,

and there is no revenue generated from it, and would like to see the harbor paid back for that. He appreciated comments about fish tax and is mindful of the fact that the harbor is paying 50% of the city lobbyist fees in order to secure appropriate sharing of the fish tax. He doesn't see that it's been kept on the priority list like it should. He would like to see a renewal of that emphasis and if the people we have in Juneau aren't going to pursue it, then we need to find someone who will. He has had his ear to the track and it sounds like there's a push to bring about a change in the governance structure to a home rule charter. Things change and we need to realize our structure may not be constant and could end up with things being considered differently. We should recognize the idea of a regional port authority managing the port with an expanded tax base. He expressed his concern about fairness in the appropriation of fees, and the fish dock fees he paid in August were 160% over what his competitor pays for the year. If the rates are increased, it needs to be done fairly and evenly for everyone. He encouraged them to keep an open mind and think outside the box.

COMMENTS OF CITY STAFF

Deputy City Clerk Jacobsen commented that the next meeting is October 30 at 5:00 pm in the Council Chambers.

COMMENTS OF THE COUNCILMEMBER

COMMENTS OF THE CHAIR

Chair Ulmer suggested discussing the November meeting schedule at their October 30 meeting.

COMMENTS OF THE COMMISSION

Commissioner Carroll questions the validity of the train of thought that that we are responding to the state's idea some years ago that they are no longer going to fund port and harbor facilities. That is ludicrous, they are doing it now and will continue to. As mentioned in the staff report there is the ferry and Tiglax; as we move up into the North Slope and transportation goes around the top of the world, Homer is still the nearest port with a road to it. Federal and Coast Guard boats are going to look for a place to park and he thinks its backward to think we have to adjust our rates to take care of this. There is nothing in this about increasing additional income. He predicts that in the next few years when Tutka Bay and Port Graham get going there will be 3 to 4 million pinks in each of those facilities making up 24 million pounds of product that will go across the dock, if we are sitting here saying "how can we rape them" they will take it to Seward or Kodiak or do what Trident has done with some of their product, and put it in vans and send it to Bellingham. He feels that if we think in terms of an enterprise and additional funds instead of just in terms of raising taxes and tariff on people, we will find things can be done differently. He questions the idea of comparing other ports and adjusting our rates and management based on that. There are way too many variables. Sitka and Kodiak are completely different than Homer and it isn't an apples to apples comparison. He also questions replacement cost of some of the facilities using a 30 or 40 year replacement cost. The dock for example is concrete and with upkeep and maintenance will be around for a long time. He thinks the study has raised more questions than answers for him.

Commissioner Zimmerman questioned market driven rates versus actual cost for replacement. He thinks market driven is a more realistic approach. Harbormaster Hawkins explained the study is based on life cycle, and in his opinion the current rate structure is based on market driven rates. We are able to

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increase our depreciation only because of other revenue. Using the the market approach can paint you into a corner when the facility wears out with no money in the bank to replace it, and have to go out for bonds. There are plusses and minuses on both sides.

Commissioner Zimmerman said it is a lot of information to digest.

Commissioner Howard thanked staff for their effort in analyzing the report. He thinks they raised valid elements of the ocean facilities that are outside the harbor and need to be treated differently than what we have inside. He hopes we can make the adjustments to do that. He agrees this is a lot of information to take in and at the end of the day, we may use a combination of trying to get more revenue and looking at transfers to the general fund. He would like to see transfers taken in to account to in terms of whether or not the harbor can retain more of its revenue for the enterprise. This will be on an ongoing issue and will take quite a while to get through. It sounds like Kodiak went through it and never went anywhere with it. We may wind up in the same situation, but there will be a lot of discussion along the way.

Commissioner Stockburger commented that everyone who is in business basically goes through this same kind of thing trying to find the sweet spot on what you can charge. Sometimes an increase in rates ends up in a decrease in the amount of revenue. Finding the sweet spot is a dynamic amount, changing with the seasons, the years, economy, and lots of different things. Like Glenn pointed out, we are much different than the ports around us for a lot of different reasons.

Harbormaster Hawkins asked Mr. Fisher about the Sitka study. They noted there are 5 harbors in Sitka, but a similar aspect to the studies that it was replacement and not changing facility layouts other than to account for contingency like ADA facilities. They talked about the public meetings that were held. Mr. Fisher acknowledged there was a substantial outreach attempt to keep their Port and Harbor Commission and Assembly up to date. He believes there were six presentations to the groups. The purpose was to walk through the process and getting input ahead of time. Harbormaster Hawkins thinks that public education is key to how this will benefit the enterprise. We need to gain a big picture view of what our responsibilities are as owner of the harbor. He thinks the biggest benefit of the study will be in the public becoming more aware of what our responsibilities are and working out a game plan for completing their mission.

ADJOURN

There being no further business to come before the Commission the meeting adjourned at 6:20 p.m. The next special meeting is scheduled for Wednesday, October 30, 2013 at 5:00 p.m. at the City Hall Cowles Council Chambers located at 491 E. Pioneer Avenue, Homer, Alaska.

MELISSA JACOBSEN, CMC, DEPUTY CITY CLERK

Approved: _____