



City Manager
334 Front Street
Ketchikan, AK 99901

Phone (907) 228-5603
Fax (907) 225-5075

TRANSMITTAL MEMORANDUM

TO: The Honorable Mayor and City Council

FROM: Lacey G. Simpson, Acting City Manager

DATE: November 3, 2021

RE: **Additional Information Concerning the Port Fund**

The attached informational memorandum from Finance Director Michelle Johansen is being provided at my request for the City Council's consideration of Resolution No. 21-2827, Amending the 2021 General Government Operating and Capital Budget to Provide a Supplemental Appropriation for the Port Department in the amount of \$4,723,868 and the Public Health Department in the amount of \$180,000.

Ms. Johansen provides an overview of the current short-term financial issues facing the Port Fund, possible solutions, and the consequences of those solutions. Based on the information outlined in Ms. Johansen's memorandum and taking into consideration that supplemental relief funding from the State of Alaska has not yet materialized, staff determined that utilizing the Norwegian Cruise Lines funding in the proposed manner was the least consequential and most cost-effective solution for the Port Fund's immediate financial needs. Recognizing that the City Council was not provided this information in advance and may wish to discuss other solutions, such as those outlined in the Finance Director's memorandum, the proposed resolution provides a platform for this discussion at the November 4, 2021 City Council meeting.

The Finance Director will attend the City Council meeting of November 4, 2021, in order to address any additional questions that Councilmembers may have.

MEMORANDUM
CITY OF KETCHIKAN, ALASKA
Finance Department
Office of the Finance Director

Michelle Johansen, Finance Director
Camille Nelson, Financial Analyst
Phone: (907) 228.5621
Facsimile: (907) 228-5617

TO: Lacey G. Simpson, Acting City Manager/KPU General Manager

FROM: Michelle Johansen, Finance Director

DATE: November 1, 2021

SUBJECT: Evaluation of Port Fund

The information included in this memo is presented for Mayor and Council consideration. As the Council considers how to fund the necessary cash needs of the Port, the following will show the current funds available in the Port Fund, the possible short term solutions and other items for consideration.

Port Fund - Current Funds Available and Cash Inflows Needed

The following estimates for funds available in the Port Fund at December 31, 2021 is provided below:

	Port Fund Reserves		Cash on hand ^
Beginning Balance 1/1/2021	4,152,210	Cash Available for Operations and Debt Service	4,404,566
		Return unused CIP Funds	(397,000)
2021 Expected Revenues	2,961,272	Cash Available for Operations and Debt Service	4,007,566
		Berth III Debt Service Payment Due 12/1/2021	(1,654,875)
2021 Expected Costs	(6,950,594)	Berth IV Lease Payment Due 12/1/2021	(900,000)
		Berth III R&R Payment	(388,667)
Ending Estimated Balance	<u>162,888</u>	Berth IV R&R Payment	(133,333)
		Debt Service Payment due on 6/1 paid in May *	(186,334)
		Cash Available for Operations	<u>744,357</u>
		Expected Operations Costs per Budget Estimate	(784,184)
		Cash Balance Estimate at 12/31/2021	<u>(39,827)</u>

^ Cash on hand starts with the cash balance as of 11/2/2021.

*Please note this is one months accrual of the next principal & interest payment due.

Revenues provided in the estimate above are assumed to be collected which accounts for most of the difference between the reserve balance and the cash on hand reconciliation.

The cash inflows needed for the period January through May of 2022 include: 1) operations costs (labor, materials, supplies and services needed to operate the port), 2) interest for the Port Berth III bonds, 3) lease payment for Berth IV. We estimate these costs to be approximately \$3 million.

Possible Short Term Solutions

The following solutions are only expected to resolve the cash inflow needs beginning January through May of 2022. If the cruise ship season does not resume as anticipated the Council may need to consider additional steps to fund the cash flow needs after May of 2022, such as our December debt service and lease payments.

- **Accelerate the final advance payment due from Telecom.** *This would provide a cash inflow in the amount of \$315,911 in January rather than December of 2022. This accelerated payment would reduce the interest costs of \$12,636 in Telecom and provide for cash inflow for the Port.*
- **Utilize Berth III Repair & Replacement Funds in the amount of \$553,000 for the May debt service payment.** *Please note a repayment requirement of 5% of Port Revenue is required until the Berth III R&R Fund is replenished and the fund deficiency is resolved. This means an additional expenditure would need to be added to the 2022 Port Department Budget to equal 5% of Port Revenues or \$498,050 for the 2022 repayment of R&R Funds. If additional funds are needed for the December 1, 2022 debt service payment of \$1,683,000 the R&R funds can be used for this purpose but the repayment amount for 2022 would remain equal to 5% of Port Revenues annually until the deficiency is resolved. It would take approximately 5 years to replenish the Berth III R&R Fund in the event it is needed to utilize the Berth III R&R Fund for both the May and December debt service payments.*
- **Utilize CPV-ARPA Funds in the amount of \$2,723,867.50 to fund the reserves of the Port Fund as revenue replacement.** *Please note these funds are not eligible to be used for debt service payments or the replenishment of Debt Service Account, Debt Reserve Account and the Berth III R&R Fund. If the Council desires to use these funds for this purpose once the funds are designated as revenue replacement they become available revenues for any Port Fund purpose (except as noted above) unless the Council specifically identifies certain exclusions.*
- **Utilize Norwegian Cruise Line funds in the amount of \$2,000,000 to pay debt service and operations costs of the Port.** *In 2020, the Port Revenues were expected to increase to \$11.6 million. The port recognized \$82,144, resulting in economic losses of \$4.98 million and a total cash outflow of \$7.55 million. The reserve balance for the Port Fund at December 31, 2021 was budgeted to be \$3,315,790. This balance was based on a 50% cruise ship season and revenues of \$6,074,329. The estimated 2021 revenues for the Port Fund are expected to be \$2,961,272 while costs are expected to be \$6,950,594 resulting in a reduction in Port reserves in the amount of \$3,989,322 which leaves a reserve balance estimate of \$162,888. The Port received 75,872 of passengers in 2021 generating \$682,848 in passenger wharfage revenues. This is far below the expected passengers of 450,000 and passenger wharfage revenue of \$4,050,000 included in the 2021 Port Operating Budget. During past meetings, City staff has notified the Council of the intent to hold the Norwegian Cruise Line funds pending evaluation of the Port Fund's needs and additional ARPA financial assistance from the State of Alaska. The State has yet to provide*

any information regarding additional ARPA funding. Since City staff is not able to identify when or how much the City would be eligible to receive under this program, it is becoming clear that these funds will not be available in the near future and we cannot count on the funds to be available for use January through May of 2022. In addition to this, these funds are ARPA funds, so they will have the same restrictions attached to the funds as the CPV-ARPA Funds, debt service is not an eligible use of these funds. Since there are no restrictions attached to the Norwegian Cruise Line funds the Council may stipulate that the NCL funds shall be used for debt service if the Council desires.

- **Utilize advances approved in the amount of \$3,143,685.** *The repayment of advances is expected to start in 2022. During past meetings, City Staff has communicated the advances (coming from CPV Funds) were to be utilized only if it was necessary since there is a financing cost associated with borrowing the funds and there are tourism capital projects that are pending the return of a cruise ship season. In the event that the full amount of the advance is utilized the annual debt service amount is \$528,618 over 7 years (2022-2028) and will need to be added to the 2022 proposed operating and capital budget. The total interest cost over the 7 year period is \$556,638.*
- **Utilize Bond Reserve Fund to pay the debt service.** *This is a last resort since these funds have to be replenished by November 15, 2022 per the bond covenants. If the Bond Reserve Fund is utilized for the purpose of paying debt service this would require the City to file a material notice event with the Alaska Municipal Bond Bank and can adversely affect our ability to borrow funds in the future.*

Other Considerations

The Port Bond – Per section 7.1 of the bond covenants states that the following priority must be applied when making payments out of the Port Fund.

- 1) Operations and maintenance costs of the port
- 2) Interest payments,
- 3) Principal payments,
- 4) Not Applicable – Qualified Letter of Credit payments,
- 5) Port Bond Reserve Fund payments,
- 6) Port Repair & Replacement Fund payments,
- 7) Not applicable since the 1994 Port Bond is paid in full,
- 8) Berth IV Lease payments

If this payment priority is not followed and the Port is not able to pay its debt service the City is in default of the bond covenants. The City would be required to notify the Alaska Municipal Bond Bank that we are in default and it could significantly affect our ability to work with the bond bank on future borrowings, as well as obtaining low interest loans from ADEC and qualify for other State grant programs. Per paragraph 5 of our loan agreement the Alaska Municipal Bond Bank has the authority to remedy our default by capturing funds due to the City from any State source. *Failure to make our debt service payment would be classified as a bond default that would have to be **disclosed in all future borrowings**.*

Other considerations are as follows:

- Section 7.1 of the bond covenants also states that Payments in Lieu of Taxes is subordinate to Berth III debt service and Berth IV lease payment. If the debt service payments are not made in 2021 and 2022 the General Fund would not be eligible to receive the \$319,000 budgeted in 2021 and \$345,000 budgeted in 2022 further reducing the reserves in the General Fund if payments in lieu of taxes is not paid.
- Section 7.3 (a) of bond covenants states City will hire a consultant regarding the operation of the Port Facilities if the Rate covenants are not met in any fiscal year (Net Revenue > 1.25x Annual Debt Service and Net Revenue > 1.0x Annual Debt Service + Deposits to R&R Fund + KDC Lease Payments). Failure to meet those covenants is not a default if the City hires a Consultant in 2021 and implements recommended changes within the next Fiscal Year. The City disclosed a violation of the rate covenant with the bond bank and asked for a waiver of this requirement in 2020 due to fact that our inability to meet this requirement was due to the complete shutdown of the cruise ship season, not poor management and hiring a consultant would not provide future benefit in this situation. The bond bank passed a resolution waiving this requirement in 2020 since we were able to make our 2020 debt service payments.
- Any default must be disclosed to the bond bank within 30 days.
- In the event the Council were to contemplate delaying the Berth IV lease payment there is a 5% penalty assessed after 60 days and interest shall accrue per annum at a rate of 1% plus prime from the initial due date. Ketchikan Dock Company also has the option of canceling the lease upon default for nonpayment.

In summary, while we are optimistic the 2022 cruise ship season will be more productive than 2021 there are no guarantees and 2021 is a good example of this. Resolution No. 21-2827 has been prepared to address the short term needs of the Port Fund.

If the Council has any questions I will be attending the November 4, 2021 council meeting.

May 20, 2021

UnCruise Adventures 2021 Port of Ketchikan Itinerary

Assistant Manager Simpson attached for Council review a memorandum from Acting Port & Harbors Director Hilson which details the 2021 itinerary for UnCruise Adventures vessels calling at the Port of Ketchikan Berth IV beginning in mid-May.

Donation to the City of Ketchikan from Norwegian Cruise Line Holdings, Ltd.

Assistant Manager Simpson provided the Council information stating that Norwegian Cruise Line Holdings, Ltd. (NCLH) publicly announced that it will generously provide \$10 million in relief support to six Alaska cruise port communities impacted by the absence of cruise passenger visitations due to the COVID-19 pandemic. She stated Ketchikan was selected as a recipient of NCLH's support in the amount of \$2 million. She said the money will be directed to the City of Ketchikan and its use will be at the discretion of the City Council. She said Finance Director Johansen has been in communication with NCLH's financial representatives to arrange for the payment to be made. She indicated once received, the City Council will need to approve an amendment to the 2021 General Government Operating and Capital Budget to direct the donation to the appropriate operating funds and uses. She informed staff will arrange for a Council discussion to determine how the donation funds should be directed and utilized at the Council meeting of June 3, 2021.

Manager Amylon explained staff did a report regarding the \$2 million dollar donation from Norwegian Cruise Lines and staff recommends the Council defer any consideration on how they would like to use that money until we have better clarification on how the federal and state disbursement of American Rescue Plan (ARP) funding may take place. He informed these funds might not have the flexibility we had hoped for. He said the City's money will come over the course of two-years and not in one lump sum payment. He continued the legislature has a number of programs under consideration and the Council might want to know how those play out before deciding on how to disburse the \$2 million.

Comparison of 2019 and 2020 City Sales Tax Revenues by Sector

Assistant Manager Simpson attached for Council review a memorandum from Finance Director Johansen summarizing 2020 sales tax collected by sector compared to 2019 collections by sector noting any increase or decrease in sales tax revenues for the City.

K.P.U. MANAGER'S REPORT

Project Status Reports of the KPU Division Managers – April 2021

General Manager Amylon attached for Council review the project status reports of the KPU division managers for the month of April 2021.

CITY CLERK'S FILE – None

CITY ATTORNEY'S FILE - None

June 3, 2021

Councilmember Flora felt we should advertise to find locals with the required expertise.

Councilmember Bradberry felt we were missing an important piece in regards to the fireboat, and as Acting Fire Chief Brainard stated we do not have the staff or the people certified to take care of the vessel. She said she would like to first make sure we have a staff person on board for regular maintenance and then the question is do we refurbish or buy new.

Councilmember Zenge agreed with Councilmember Flora and stated she too was contacted by quite a few people regarding this subject and through that found out, we do have the expertise here locally. She felt we would be doing a disservice to the community if we have the ability to get this done locally and we don't take that into consideration. She indicated she liked the idea of forming a committee, and that is what she will support and that would be her direction to staff.

Manager Amylon said he had enough direction to proceed, but the first thing that has to happen is to figure out what will be the revised scope of work and what will the boat need in terms of fire protection and services within the community. He said once that is defined then staff can meet with a local group relative to what needs to be done to the boat to have a reasonable opportunity to achieve that purpose. He said from there the committee can come up with a cost estimate or we might need to engage someone to do that.

Motion passed with Bergeron, Flora, Bradberry, Gage, Gass and Zenge voting yea; Kiffer absent.

Unvaccinated Minors as Passengers Request - Royal Caribbean International

Councilmember Bradberry declared she works for the Great Alaskan Lumber Jack Show and questioned if she should recuse herself.

Mayor Sivertsen declared there was no conflict of interest with this particular motion, and she could participate.

Moved by Bradberry, seconded by Flora the City Council adopt the motion directing staff to take such action regarding issuing support for the unvaccinated minor passengers operational plan proposed by Royal Caribbean International as determined appropriate by the City Council.

Manager Amylon felt this was self-explanatory. He said staff met with representatives of Royal Caribbean International on May 25, 2021, and they have taken a slightly different position than the other lines relative to unvaccinated minors. He said staff felt it was a reasonable approach.

Motion passed with Zenge, Flora, Bergeron, Gage, Gass and Bradberry voting yea; Kiffer absent.

Budget Transfer – Port of Ketchikan Budget Mitigation Plan for Substantially Reduced or No Cruise Season Conditions in 2021

Moved by Flora, seconded by Gass the City Council authorize the City Manager to transfer up to \$3,143,685 from the Appropriated Reserves of the CPV Fund to Advances to Other Funds – Port Fund Account No. 913.510; and transfer \$3,143,685 from within the Port Fund Operating Revenues Account No. 451.001 to the Advance From Other Funds – CPV Fund Account No. 423.260 to fund a loan from the CPV Fund for the purpose of funding operating, debt service, lease and capital costs of the Port Fund; and direct that the Port of Ketchikan be assessed four and one-quarter percent (4.25%) interest charges on funds withdrawn from the CPV Fund for the purpose of providing interim financing of Port operations.

June 3, 2021

Manager Amylon and Finance Director Johansen answered questions from the Council.

Motion passed with Gass, Bergeron, Gage, Flora, Zenge and Bradberry voting yea; Kiffer absent.

Ordinance No. 21-1934 – Amending Sections 2.04.020 Of The Ketchikan Municipal Code Entitled, “Place Of Meetings Of The Council”; And 2.04.023 Entitled, “Teleconferencing”

Copies of Ordinance No. 21-1934 were available for all present.

Moved by Zenge, seconded by Flora the City Council approve in first reading Ordinance No. 21-1934 amending Sections 2.04.020 of the Ketchikan Municipal Code entitled, “Place of Meetings of the Council”; and 2.04.023 entitled, “Teleconferencing”; and establishing an effective date.

City Attorney answered questions from the Council.

Motion passed with Zenge, Flora, Bergeron, Bradberry, Gage and Gass voting yea; Kiffer absent.

Ordinance No. 21-1933 – Declaring An Emergency Due To The Continuing COVID-19 Pandemic; Extending Emergency Ordinance No. 20-1907 Until August 1, 2021

Copies of Ordinance No. 21-1933 were available for all present.

Moved by Flora, seconded by Zenge the City Council approve Ordinance No. 21-1933 declaring an emergency due to the continuing COVID-19 pandemic; extending Emergency Ordinance No. 20-1907 until August 1, 2021; and establishing an effective date.

Councilmember Gass felt the community is no longer in a state of emergency due to COVID, and would not support this ordinance for that reason. He felt we need to transition out of a state of crisis.

Councilmember Zenge stated she would support this ordinance. She felt we should be over this, but at the same time from the presentations from Mr. Owings and EOC Incident Commander Hoage that the EOC is stepping things down. She indicated we owe them the additional time in order to put this to bed.

Councilmember Bradberry asked for clarification if the Council chooses not to extend this declaration, would it immediately stop the operations of the EOC.

Mayor Sivertsen stated in response to Councilmember Bradberry that this ordinance does not need to be in place to keep the EOC going.

Motion failed with Bergeron, Flora, Zenge and Gage voting yea; Gass and Bradberry voting nay; Kiffer absent.

[Clerk’s Note: Charter Section 2-14 requires the affirmative vote of at least five members of the Council for final passage of an emergency ordinance.]

Councilmember Flora asked for clarification since the emergency ordinance failed how would this effect Ordinance No. 21-1934.

City Attorney Seaver clarified this emergency ordinance expires on July 1, 2021 which gives the Council the authority to hold regular meetings at a place other than in Council Chambers at City Hall. He said without the emergency ordinance in place and until Ordinance No. 21-1934 is effective, the meetings would have to take place in Council Chambers at City Hall.



City Manager
334 Front Street
Ketchikan, AK 99901

Phone (907) 228-5603
Fax (907) 225-5075

TRANSMITTAL MEMORANDUM

TO: The Honorable Mayor and City Council

FROM: Karl R. Amylon, City Manager

DATE: May 26, 2021

RE: **Authorizing Budget Transfer – Port of Ketchikan Budget Mitigation Plan for Substantially Reduced or No Cruise Season Conditions in 2021**

At its meeting of March 18, 2021, the City Council adopted a motion authorizing my office to proceed with General Government and KPU Operating and Capital Budget mitigation plans for substantially reduced or no cruise season conditions in 2021 as detailed in staff's report dated March 10, 2021 and/or as modified by the City Council. The motion detailed below was prepared at the request of Finance Director Michelle Johansen, who asked that it be placed before the City Council for consideration at its meeting of June 3, 2021. If adopted, the motion provides for transferring \$3,143,685 from the CPV Fund to the Port Enterprise Fund. Such a transfer is consistent with the General Government Operating and Capital Budget mitigation plan that the City Council authorized.

The transfer is structured as a loan from the CPV Fund to the Port Enterprise Fund, with a seven-year repayment schedule at an interest rate of 4.25%. Depending on what amount of American Rescue Plan Act (ARPA) funding the City may receive from the federal and state governments and the City Council's allocation of the funding, I agree with Ms. Johansen's observation that the loan may not be necessary and/or the principal may be repaid on an advanced schedule.

The Finance Director will attend the City Council meeting of June 3, 2021, in order to address any questions and/or concerns that Councilmembers may have.

A motion has been prepared for City Council consideration.

RECOMMENDATION

It is recommended the City Council adopt the motion authorizing the City Manager to transfer up to \$3,143,685 from the Appropriated Reserves of the CPV Fund to Advances to Other Funds – Port Fund Account No. 913.510; and transfer \$3,143,685 from within the Port Fund Operating Revenues Account No. 451.001 to the Advance From Other Funds – CPV Fund Account No. 423.260 to fund a loan from the CPV Fund for the purpose of funding operating, debt service, lease and capital costs of the Port Fund; and directing that the Port of Ketchikan be assessed four and one-quarter percent (4.25%) interest charges on funds withdrawn from the CPV Fund for the purpose of providing interim financing of Port operations.

Recommended Motion: I move the City Council authorize the City Manager to transfer up to \$3,143,685 from the Appropriated Reserves of the CPV Fund to Advances to Other Funds – Port Fund Account No. 913.510; and transfer \$3,143,685 from within the Port Fund Operating Revenues Account No. 451.001 to the Advance From Other Funds – CPV Fund Account No. 423.260 to fund a loan from the CPV Fund for the purpose of funding operating, debt service, lease and capital costs of the Port Fund; and direct that the Port of Ketchikan be assessed four and one-quarter percent (4.25%) interest charges on funds withdrawn from the CPV Fund for the purpose of providing interim financing of Port operations.

MEMORANDUM
CITY OF KETCHIKAN, ALASKA
Finance Department
Office of the Finance Director

Michelle Johansen, Finance Director
Camille Nelson, Financial Analyst
Phone: (907) 228-5621
Facsimile: (907) 228-5617

TO: Karl R. Amylon, City Manager/KPU General Manager

FROM: Michelle Johansen, Finance Director

DATE: May 24, 2021

SUBJECT: Request for 2021 Budget Transfers from the Appropriated Reserves of the CPV Fund to Advances to Other Funds and a Transfer from within the Port Fund

At its meeting of March 18, 2021, the Council approved a mitigation plan which included a loan from the CPV Fund to the Port Fund in the amount of \$3,143,685. Should the funds become necessary in 2021 a budget transfer will be necessary to provide an appropriation for the loan.

Based on the likelihood the Port will see a significantly reduced cruise ship season in 2021 it will be necessary to establish an appropriation for a loan from the CPV Fund to the Port Fund and also establish a repayment plan. Due to the possibility of continued complications related to COVID – 19 pandemic I recommend a 7 year repayment plan of \$528,617.59 annually to start December 31, 2022. Interest rate of 4.25% (prime plus 1) will be used and calculated annually. This will allow staff time to evaluate the 2021 and 2022 cruise season and the Port Fund's ability to recover from the effects of the zero cruise ship season in 2020.

The Council should be aware that distribution of Federal American Rescue Plan Act funding is in process. There have been discussions with our State Delegation that indicate we may receive 2 years of CPV Funding that would have been distributed during a normal cruise ship season. In addition to this the State is working on providing assistance to the significantly impacted communities. Due to the uncertainties of timing and amounts the City of Ketchikan will receive staff is bringing this forward now to ensure the funds are available to meet the obligations of the Port Fund as they come due. Should the American Rescue Plan Act funding offset the proposed loan amount staff will evaluate whether the advance is still necessary.

I recommend the City Council approve a budget transfer from within the appropriated reserves of the CPV Fund to Advances To Other Funds – Port Fund in the amount \$3,143,685 and transfer from within the Port Fund Operating Revenues – Wharfage Revenues Account 451.001 of \$3,143,685 to the Advances From Other Funds – CPV Fund.

Recommended Motion:

I move the City Council authorize the City Manager to transfer up to \$3,143,685 from the Appropriated Reserves of the CPV Fund to Advances to Other Funds - Port Fund account 913.510; and transfer \$3,143,685 from within the Port Fund Operating Revenues account 451.001 to the Advance From Other Funds - CPV Fund account 423.260 to fund a loan from the CPV Fund for the purpose of funding operating, debt service, lease and capital costs of the Port Fund; and direct that the Port of Ketchikan be assessed four and one-quarter percent (4.25%) interest charges on funds withdrawn from the CPV Fund for purpose of providing interim financing of Port operations.