

## **POSSIBLE MOTION**

**I MOVE TO** approve Ordinance 2017-31 on  
second and final reading.



# City and Borough of Sitka

100 Lincoln Street • Sitka, Alaska 99835

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## MEMORANDUM

**To:** Mayor Hunter and Assembly Members  
Phillip Messina, Interim Municipal Administrator

**From:** Jay Sweeney, Chief Finance and Administrative Officer

**Cc:** Michael Harmon, Public Works Director  
Stan Eliason, Harbormaster

**Date:** August 15, 2017

**Subject:** Supplemental Budget Appropriation to Repair O'Connell Lightering Facility

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### Background

A recent inspection of the O'Connell Lightering Facility was completed after CBS staff observed several piling had shifted out of plumb after a storm event. Through that inspection, it was determined that the facility is not able to safely accommodate yachts and large vessels over 40 feet in length. The piling can be replaced and socketed into the rock to a greater depth to accommodate larger vessels; however, the cost of the repairs depends on whether a repair barge needs to be mobilized, and, whether such repairs are in the best economic interest of the Municipality. Administration is requesting a supplemental appropriation from the Harbor Fund to repair the facility even though not all pertinent information is available to conduct an economic analysis of the facility.

### Analysis

1. CBS Harbor Staff observed several piling had shifted out of plumb after a storm event.
2. A subsequent inspection of the O'Connell Lightering Facility was completed which determined that the facility cannot safely moor yachts and larger commercial vessels.
3. The piling can be replaced and socketed into the rock to a greater depth to accommodate larger vessels; however, the cost is dependent on whether or not a repair barge must be mobilized. A repair barge will be mobilized this fall to construct the GPIP dock; if that barge is also used to repair the O'Connell facility, the cost of repair is estimated to be \$270,000. If a barge must be separately summoned at a different time, the cost of repair is estimated at \$384,000 (barge mobilization costs are estimated to be \$114,000).

4. Unless and until the O'Connell Lightering Facility is repaired, yachts and large vessels can't be safely moored at it. Some, but not all, of these vessels can be alternatively moored at Eliason Harbor instead.
5. O'Connell Lightering facility is extremely popular with yachts owners/captains due to its downtown location and exclusive accommodations. The facility had generated \$38,408.40 in revenue in summer 2017 up until it was determined that the facility could not safely accommodate yachts. 30 days of reservations were cancelled which would have generated an additional \$29,754.00 for the Harbor Fund.
6. The O'Connell Lightering facility is still functional and usable, however, by lighters and smaller vessels.
7. The costs of future repair and renovation of the O'Connell Lightering Facility have not been built into the Harbor long-term fiscal plan.
8. Not all of the facts are available to complete an economic analysis of the potential repair of the facility. Facts not readily available are potential moorage available if the facility is repaired and improved; and, net moorage revenue lost if the facility is not repaired. This information is necessary to determine if there is a net present value of future cash moorage cash flows versus repair costs; a net present value would be important to economically justify repairs.

### **Fiscal Note**

1. As the costs of future repair and renovation of the O'Connell Lightering Facility have not been built into the Harbor long-term fiscal plan, no portion of the fund balance in the Harbor Fund can be considered to have been accumulated for the repair of the facility. The Assembly could, however, direct that some portion of the Harbor Fund balance be restricted for repair of the facility, or, direct that repairs be made utilizing the existing Harbor Fund balance that will be replenished over time by moorage fees from the facility.
2. Existing moorage fees for the O'Connell Lightering facility have been factored into the Harbor fiscal plan as a revenue stream to finance other future construction and repair costs. These existing moorage fees include \$991.80 per day for the moorage of large yachts and other commercial vessels. A representative from another yacht mooring facility in the Pacific Northwest suggested that we should be charging a minimum of \$3,000.00 per day up to \$5,000.00 for such an exclusive facility.
3. It is feasible that the \$991.80 per day moorage charge for yachts and other large vessels at the O'Connell Lightering Facility could be increased, possibly up to \$5,000 per day as stated previously, provided that exclusive access and other amenities such as water, security, and improved wireless communication are provided. Exactly how much the daily moorage could be raised up to, and the related elasticity of demand for each additional dollar of daily moorage is unknown and can't be determined without marketing research. Luxury items, at some point, tend to have demand curves which are more inelastic (sensitive to price increases) than necessities. The shape of the demand curve for exclusive moorage in Sitka, Alaska is unknown at this time but could be reasonably determined with research.
4. If daily moorage charges are increased, as some point yacht and large vessel owner will begin to demand greater exclusivity and amenities. These could conceivably include (in addition to the amenities listed above) having harbor officials complete all registration

paperwork at the O'Connell facility instead of at the harbor office, and, perhaps restricted access via key or security code to the lightering dock. Having exclusive moorage with direct access to downtown is a great selling point in and of itself; however, the higher the daily moorage fee is raised, the greater the demand will be for exclusivity and amenities.

5. Complicating research regarding price elasticity for exclusive moorage at the O'Connell Lightering Facility is the fact that some alternative less-exclusive moorage does exist at Eliason Harbor. At what price point yacht and large vessel owners are economically induced to moor at Eliason Harbor as opposed to paying higher exclusive moorage rates at the O'Connell facility is unknown but determinable with research. At today's rates, O'Connell is a preferred location as opposed to other locations within the Harbor system.
6. Once demand at different price points can be reasonably estimated, an economic analysis could be prepared to determine if the net present value of all related cash streams is positive (i.e., the project pencils out). The present value (i.e., discounted value of future cash flows measured today) of additional cash flows from increased moorage would need to exceed the cost of repairs for the project to economically "pencil out".
7. The time required to gather additional facts and conduct an economic analysis is longer than the time period available to make the decision regarding whether or not to authorize repairs now, taking advantage of lower overall repair costs by not having to mobilize an additional repair barge.
8. The decision to repair now, or wait until more information is known and repair later, will have to be made using assumptions and estimates and will, therefore, involve a degree of risk. There is a possibility that repairs will be made, moorage is increased, and the project pencils out. There is also risk that the opposite happens.

### **Recommendation**

Administration recommends that the Assembly approve the following:

- A. A supplemental appropriation from the unrestricted balance of the Harbor Fund in the amount of \$270,000 to repair the pilings at the O'Connell Lightering Facility;
- B. A supplemental appropriation from the unrestricted balance of the Harbor Fund in the amount of \$10,000 to conduct marketing research as to possible increased daily moorage fees for the O'Connell Lightering facility and their associated market demands.