

City and Borough of Sitka

100 Lincoln Street • Sitka, Alaska 99835

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

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.

CITY AND BOROUGH OF SITKA

ORDINANCE NO. 2017-31
AN ORDINANCE OF THE CITY AND BOROUGH OF SITKA
ADJUSTING THE FY18 BUDGET

BE IT ENACTED by the Assembly of the City and Borough of Sitka, Alaska as follows:

1. **CLASSIFICATION.** This ordinance is not of a permanent nature and is not intended to be a part of the Sitka General Code of the City and Borough of Sitka, Alaska.

2. **SEVERABILITY.** If any provision of this ordinance or any application thereof to any person or circumstance is held invalid, the remainder of this ordinance and application thereof to any person and circumstances shall not be affected thereby.

3. **PURPOSE.** The purpose of this ordinance is to adjust the FY18 budgets for known changes.

4. **ENACTMENT.** The Assembly of the City and Borough of Sitka hereby adjusts the FY18 budget for known changes. In accordance with Section 11.10(a) of the Charter of the City and Borough of Sitka, Alaska, the budget for the fiscal period beginning July 1, 2017 and ending June 30, 2018 is hereby adjusted as follows:

<u>FISCAL YEAR 2018 EXPENDITURE BUDGETS</u>
<u>CAPITAL PROJECTS</u>
Fund 750 – O’Connell Lightering Facility Repair Project: Administration is requesting a supplemental appropriation in the amount of \$280,000 in which \$270,000 will be to repair the pilings at the O’Connell Lightering Facility and \$10,000 will be to conduct marketing research for possible increased daily moorage fees for the O’Connell Lightering Facility and their associated market demands. These funds will come from the unrestricted balance of the Harbor Fund.


EXPLANATION

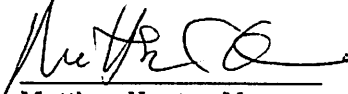
Necessary revisions in the FY 2018 budget were identified. These changes involve the increase of expenditure accounts and causes decreased cash flows to the fund balance of various funds. A short explanation of each budget revision is included.

5. **EFFECTIVE DATE.** This ordinance shall become effective on the day after the date of its passage.

PASSED, APPROVED, AND ADOPTED by the Assembly of the City and Borough of Sitka, Alaska this 12th Day of September, 2017.

ATTEST:


Sara Peterson, CMC
Municipal Clerk


Matthew Hunter, Mayor

1st reading 8/22/17

2nd reading 9/12/17

F ORD 17-31 Adjusting the FY18 Budget (*O'Connell Lightering Facility Repair Project*)

Harbormaster, Stan Eliason, stated an unexpected wind event had damaged the O'Connell Lightering Facility. It had been determined the Facility was unable to safely accommodate yachts and large vessels over 40 feet in length. He believed the Facility, once repaired, had significant revenue potential citing it was a popular docking site for yachts. Deputy Harbormaster, Chuck Hackett, stated current charges were approximately \$1,000 per night. Outside sources had suggested the Facility should charge more, possibly between \$3,000 and \$5,000 a day. With a portion of the budget appropriation, Eliason and Hackett planned to conduct marketing research to determine demand and moorage fees. Eliason added the Facility would pay for itself and be a revenue stream for the Harbor Department. Dan Tadic, Municipal Engineer, relayed the repair barge planned to be used for construction of the Gary Paxton Industrial Park dock this fall could be used to repair the Lightering Facility, saving the City money.

Knox feared, if a decision was delayed, repair costs would increase and potential revenue would be lost. Eisenbeisz and Potrzuski expressed a desire for further analysis and marketing.

A motion was made by Bean that this Ordinance be APPROVED on FIRST READING. The motion PASSED by the following vote.

Yes: 5 - Swanson, Eisenbeisz, Potrzuski, Knox, and Bean

Absent: 2 - Guevin, and Hunter

Additional New Business Items**G 17-146 Approve a lease amendment between the City and Borough of Sitka and SECON, Inc. for Granite Creek Industrial Site #7**

A motion was made by Swanson that this Item be APPROVED. The motion PASSED by the following vote.

Yes: 5 - Swanson, Eisenbeisz, Potrzuski, Knox, and Bean

Absent: 2 - Guevin, and Hunter

H 17-145 Approve a request from Sitka Community Hospital in the amount of \$60,171 for additional paving of the clinic parking lot and pedestrian walkway

Steven Hartford, Director of Operations at Sitka Community Hospital (SCH), summarized there were remaining funds in the FY17 capital account. SCH hoped to use the money for repair and resurfacing of the existing clinic pedestrian access (between the Clinic and the ER entrance of the Hospital) and parking area. The paving work was needed to eliminate hazardous safety conditions for patients, customers and employees. SCH planned to piggyback on the City's paving project of the Emergency Room (ER) entrance driveway.

Knox wondered what phase the project was in as it appeared the project had started and where it fell within the capital plan. Hartford explained demo work had been done while the equipment and crew were available for the ER driveway project. SCH Chief Executive Officer, Rob Allen, added that any capital improvement projects over \$25,000

Recreational Trails Program for repairs to the Sea Lion Cove Trail

This item was APPROVED ON THE CONSENT AGENDA.

X. BOARD, COMMISSION, COMMITTEE APPOINTMENTS

- C** 17-154 Appoint Ken Creamer to an unexpired term on the Port and Harbors Commission
- Knox thanked former Port and Harbor Commission member Ken Creamer for reapplying.
- A motion was made by Knox that this Item be APPROVED. The motion PASSED by the following vote.**
- Yes:** 6 - Swanson, Eisenbeisz, Potrzuski, Hunter, Knox, and Bean
- Absent:** 1 - Guevin

XI. UNFINISHED BUSINESS:

- D** ORD 17-29S Adjusting the FY18 Budget (*Sitka Airport Terminal Improvements Project*)

A motion was made by Potrzuski that this Ordinance be APPROVED on SECOND AND FINAL READING. The motion PASSED by the following vote.

Yes: 4 - Eisenbeisz, Potrzuski, Hunter, and Knox

No: 2 - Swanson, and Bean

Absent: 1 - Guevin

- E** ORD 17-30 Adjusting the FY17/FY18 Budgets (*Solid Waste Fund, Harbor Fund, Management Information Systems Fund, Public Works - Recreation Department*)
- Potrzuski and Bean explained there had been a budgeting error. With regards to the Harbor Fund, Hunter noted there had been a shift in solid waste collection costs from citizens to the Municipality. Bean reminded the cost of transporting garbage off the island was approximately \$2 million each year. To reduce off island transportation costs, he suggested exploring the idea of a modern incinerator at the Gary Paxton Industrial Park site.

A motion was made by Potrzuski that this Ordinance be APPROVED on SECOND AND FINAL READING. The motion PASSED by the following vote.

Yes: 6 - Swanson, Eisenbeisz, Potrzuski, Hunter, Knox, and Bean

Absent: 1 - Guevin

- F** ORD 17-31 Adjusting the FY18 Budget (*O'Connell Lightering Facility Repair Project*)

Harbormaster, Stan Eliason, stated he was researching yacht rates to help determine what the market could bear. Eliason stated the dock was mobilized May through September. He estimated approximately 90 bookings were possible at a minimum of \$1,000 each booking.



A motion was made by Swanson that this Ordinance be APPROVED on SECOND AND FINAL READING. The motion PASSED by the following vote.

Yes: 6 - Swanson, Eisenbeisz, Potrzuski, Hunter, Knox, and Bean

Absent: 1 - Guevin

XII. NEW BUSINESS:

G 17-155

Approve a 20-year purchase agreement between the City and Borough of Sitka and Eckert Fine Beverages for the export of bulk water

Richard Wein wondered how the branding and Sitka would be protected. Helen Craig reminded of the importance of keeping the industries separated at the Industrial Park - e.g. marijuana, bulk water.

In answer to a question regarding a contract provision to protect Sitka from a drought, Garry White, Director of the Gary Paxton Industrial Park, reminded the Municipal Administrator could temporarily suspend raw water deliveries. While a contract term of 20 years was typical, White noted there were required benchmarks of Eckert Fine Beverages.

A motion was made by Knox that this Item be APPROVED. The motion PASSED by the following vote.

Yes: 6 - Swanson, Eisenbeisz, Potrzuski, Hunter, Knox, and Bean

Absent: 1 - Guevin

H 17-156

Approve a 20-year purchase agreement between the City and Borough of Sitka and Arctic Blue Waters Inc. for the export of bulk water

Richard Wein spoke to the branding and protection of Sitka. Helen Craig thanked the Assembly for their work and keeping water in the dam.

Eisenbeisz expressed caution. He noted the City had been dealing with this company for quite some time and there hadn't been water shipments. Gary Paxton Industrial Park Director, Garry White, reminded bulk water was a tough business. He spoke to the tighter requirements of the contract. Fred Paley of Arctic Blue Waters, stated he had been in the business for over 20 years. He added the company may have been premature when they approached the City in 1995 for a bulk water license. At that time their focus was on China. Paley noted the company had a business partner in Fairbanks and the funding behind them to aggressively market bulk water.

In response to questions of risk to the City, Garry White stated he was confident the contract protected the City. Brian Hanson, Municipal Attorney, reiterated the goal of the contract was to reduce risk. He and White discouraged the Assembly from adding provisions related to branding. White added when water was exported, the City would take their own samples for testing.

A motion was made by Knox that this Item be APPROVED. The motion PASSED by the following vote.

Yes: 5 - Swanson, Potrzuski, Hunter, Knox, and Bean

No: 1 - Eisenbeisz