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CITY AND BOROUGH AND SITKA, ALASKA

**Cost Study and Marketing Research Results and
Recommendations For
O'Connell Bridge Lightering Float**

Executive Summary

We are pleased to present the results of our marketing research and cost study results performed on behalf of the City and Borough of Sitka, Alaska for the O'Connell Bridge Lightering Float operated by the Harbor Enterprise Fund.

Background:

The City and Borough of Sitka (CBS) operates and maintains the O'Connell Bridge Lightering Float where cruise ship operators can embark and disembark their passengers and crew that desire to visit Sitka, Alaska when their vessels arrive in port. The O'Connell Bridge facility is also used to berth high end yachts while their passengers and crew also visit and enjoy Sitka, Alaska.

We understand that the O'Connell float was recently damaged in a storm, and further, that CBS is experiencing cost overruns due to unanticipated and expensive environmental permitting costs, as well as expensive placement costs to replace failed piling given bedrock conditions at the facility. We also understand the CBS Assembly's concern that rates at this facility should be set to cover its current and anticipated long run direct cost as well as make a reasonable contribution to the joint and common costs of the Harbor operations at Sitka, Alaska. Therefore, the purpose of this report is two-fold. First, to perform marketing research to identify the services yacht owners and operator's desire from this facility and the price they would be willing to pay for these services. Second, develop a cost study using the results obtained from the marketing research to evaluate if the facility can profitably provide the desired services.

In our kickoff meeting CBS stakeholders confirmed the two-fold purpose of this engagement. Therefore, our work plan to meet the required scope of services was to begin our marketing research by assembling a focus group session designed to identify the desired services yacht owners and operator's desire and the price for these services. The marketing research study is attached as an exhibit to this report, and further, we will summarize the results of that study in this report and how we used the marketing data in our cost study to determine the profitability of this facility over a ten year forecast period.

As will be more fully discussed in the body of this report our marketing research and the cost models indicate the following:

1. Yacht customers are not price sensitive and as long as the services requested are available and offered in a bundled offering that rates can be increased significantly over the current rate level.
2. The O'Connell facility if designed to provide the requesting services can cover its direct cost and make a reasonable contribution to the Harbors direct and common costs.

Marketing Research Methods and Results:

In this section of our report we will only summarize the findings and recommendations of the focus group and how we used the marketing data in our overall cost study model. As noted above the full marketing research report is attached as an exhibit to this report.

The primary purpose of the marketing research was to gain a better understanding of the services demanded by customers that berth their yachts at the O'Connell Bridge Float facility and the price they would be willing to pay for these services. Our marketing research sub-consultant (Craciun Research Group) selected individuals to participate in a telephonic focus group consisting of yacht captains and individuals who make arrangements for yacht clients who use the O'Connell Bridge Float facility.

Craciun Research prepared a Discussion Guide that summarizes what was to be discussed during the focus group session and is attached to their report. The following topics were covered during the session:

1. Attitude about O'Connell Bridge Float Facility and Sitka Harbor
2. Attitude about Sitka
3. Ideal customers
4. Key services and amenities expected from yacht docking facilities
5. Ideal experience for yacht users
6. Make or break price points

During the focus group session we learned that all participants knew about the O'Connell Bridge Float dock and their use varied from regular to rare use of the facility. Participants noted that the facility was very accessible but that accessibility caused security concerns that might be solved with security gates installed with access codes. Further, participants had complaints about wake issue experienced during their visit to the facility.

Participants said they prefer Sitka over other neighboring communities such as Juneau and Ketchikan as these cities seemed to be overrun by cruise ships, but they also commented that more attention could be paid to organized tour options for their passengers and crew.

Key services that were identified during the session included:

1. Privacy and security for yacht users and owners with security gates with access codes
2. Reliable power, with connections on both ends of the dock
3. Reliable WI-Fi connectivity
4. Water connection
5. Scheduled garbage pick-up or dumpster facilities
6. Accessible dock carts

7. Slip reservations

After discussing the service expectations in the yachting experience, the question that arises is at what price do we offer these services, amenities and experiences, and who pays for it? What came out of the discussion was a somewhat surprising assertion that price just really didn't matter and wasn't a part of the everyday conversions for this population. The pricing came down to being able to make a reservation for a slip and providing that reservation and all the related costs and fees for related experiences, services and amenities in a bundled price on a single bill.

Cost Study Analysis Results:

As part of this engagement we proposed to develop a cost model using a Microsoft Excel based application that determines on a 10 year forward-looking basis the revenue requirement/cost of service for the O'Connell Bridge Float facility. This cost model will provide an effective management tool both now and in the future that addresses the following topics:

1. A determination on whether the O'Connell Bridge Float facility, at proposed rates would cover its revenue requirement and percent change in rates needed to achieve the revenue requirement each year over the forecast period.
2. A determination of the contribution margin for this class of service offered by the Harbor.
3. Rate structures grounded in current best cost-of-service and recovery practices that also adequately address the balance of perspectives and needs of the harbor and customers service.

The base line cost study began with the 2018 budgeted costs to operate the entire Harbor enterprise operation. We then developed three scenarios using the cost model as more fully described below.

In each of the three cost model scenarios there are three fundamental factors that are always accounted for in determining the revenue requirement/cost of service for the O'Connell Bridge Float facility. These include:

- a. Rates for the facility will be set so that year-end operating reserves meet best practices of a minimum of 60 and maximum of 90 days of cash operating expenses each year over the forecast period.
- b. Rates for the facility will be set so that year-end capital reserves meet best practices of a minimum of 2% of plant in service over the forecast period.
- c. Rates for the facility will be set to cover 100% of the depreciation expense for the O'Connell float, restroom and float pile replacement.

A. Cost Model Scenario One: In scenario one we assumed that the revenue associated with the O'Connell Bridge facility would remain approximately close to the level recorded on the Harbor's 2017 Statement of Revenue Expenses and

Change in Net Position, or approximately \$34,000. We then use the model to determine the required level of expenses for 2018 in order to maintain operating and capital reserves as recommended above and cover 100% of the depreciation expense of the O'Connell Facility.

As shown in Table 1 below for 2018 \$34,000 in revenue can support an operating expense of \$30,347 and still provide the needed operating and capital reserves that we said above are needed to achieve best practices in setting reserve levels. We then provided this information to the Harbormaster for his assessment of the reasonableness of the expense level to operate the O'Connell Bridge Float facility. The Harbormaster believed he could operate the float at this embedded expense level.

Table 1 also shows that for the remaining forecast years (2019 – 2028) the cost model assumes that operating expenses will increase 2% per year. In order to maintain a positive cash flow and reserves at recommended levels rates must be increased by 1% each year beginning in 2019 through 2023 and then increase to 1.5% from 2024 through 2028. In other words the rate would change from its current \$5.51 per foot per day to \$6.24 at the end of 2028.

SUMMARY OF RESULTS:

Other relevant points to note in this scenario is that the dock piling replacement currently booked at \$560,000 will be paid by the Harbor using its equity and not debt. A review of the unrestricted net position of the Harbor indicates that it is well reserved to cover this cost. Finally, in our opinion and assuming these conservative assumptions for revenues and expenses are achieved the adjustments to rates are well within the zone of what our marketing research indicates is possible for this service.

Table 1: Scenario One – Maintain Revenue Levels & Determine Operating Expense Requirements to Achieve Revenue Requirement.

City and Borough of Sitka
Harbor Luxury Yacht Services
Summary



	FY Ending										
Capital Funding	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Total Capital Projects	\$ 560,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grants & Developer Donations	-	-	-	-	-	-	-	-	-	-	-
Principal Forgiveness	-	-	-	-	-	-	-	-	-	-	-
Use of Capital Fund Balance	560,000	-	-	-	-	-	-	-	-	-	-
ADEC & Other Loans	-	-	-	-	-	-	-	-	-	-	-
Total Funding Sources	\$ 560,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue Requirements	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenues											
Rate Revenues Under Existing Rates	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000
Non-Rate Revenues	-	-	-	-	-	-	-	-	-	-	-
Non Operating Revenues	-	-	-	-	-	-	-	-	-	-	-
Total Revenues	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000
Expenses											
Cash Operating Expenses	\$ 28,000	\$ 28,588	\$ 29,188	\$ 29,801	\$ 30,427	\$ 31,066	\$ 31,718	\$ 32,385	\$ 33,065	\$ 33,759	\$ 34,468
Existing Debt Service	-	-	-	-	-	-	-	-	-	-	-
New Debt Service	-	-	-	-	-	-	-	-	-	-	-
Rate-Funded CIP	-	-	-	-	-	-	-	-	-	-	-
Rate Funded System Reinvestment	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347
Additions to Operating Reserve	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	\$ 30,347	\$ 30,935	\$ 31,535	\$ 32,148	\$ 32,774	\$ 33,413	\$ 34,065	\$ 34,731	\$ 35,411	\$ 36,106	\$ 36,815
Maximum Net (Cash or Coverage)	\$ 3,653	\$ 3,065	\$ 2,465	\$ 1,852	\$ 1,226	\$ 587	\$ (65)	\$ (731)	\$ (1,411)	\$ (2,106)	\$ (2,815)
Annual Rate Adjustment	0.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.50%	1.50%	1.50%	1.50%	1.50%
Cumulative Rate Increase	0.00%	1.00%	2.01%	3.03%	4.06%	5.10%	6.68%	8.28%	9.90%	11.55%	13.22%
O'Connell Bridge Rate Per Ft. Per Day	\$5.51	\$5.57	\$5.62	\$5.68	\$5.73	\$5.79	\$5.88	\$5.97	\$6.06	\$6.15	\$6.24
Rate Revenues After Rate Increase	\$ 34,000	\$ 34,340	\$ 34,683	\$ 35,030	\$ 35,381	\$ 35,734	\$ 36,270	\$ 36,814	\$ 37,367	\$ 37,927	\$ 38,496
Net Cash Flow After Rate Increase	3,653	3,405	3,148	2,882	2,607	2,322	2,205	2,083	1,955	1,821	1,681
Coverage After Rate Increases	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fund Balances - Projected Y-E	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Projected Operating Reserves	\$ 4,653	\$ 7,049	\$ 7,197	\$ 7,348	\$ 7,503	\$ 7,660	\$ 7,821	\$ 7,985	\$ 8,153	\$ 8,324	\$ 8,499
Projected Capital Reserves	2,347	5,703	11,050	16,128	20,927	25,437	29,829	34,094	38,228	42,225	46,079
Projected Debt Service Reserves	-	-	-	-	-	-	-	-	-	-	-
Total	\$ 7,000	\$ 12,752	\$ 18,247	\$ 23,476	\$ 28,429	\$ 33,098	\$ 37,649	\$ 42,079	\$ 46,381	\$ 50,549	\$ 54,578
Operating Reserve Minimum	\$ 4,603	\$ 4,699	\$ 4,798	\$ 4,899	\$ 5,002	\$ 5,107	\$ 5,214	\$ 5,323	\$ 5,435	\$ 5,549	\$ 5,666
Capital Reserve Minimum	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380
Combined Minimum Target Balance	\$ 42,983	\$ 43,079	\$ 43,178	\$ 43,279	\$ 43,382	\$ 43,487	\$ 43,594	\$ 43,703	\$ 43,815	\$ 43,929	\$ 44,046

B. Cost Model Scenario Two: In this scenario we attempted to determine an expense level for 2018 required to operate the O'Connell Bridge Float facility and then used the model to determine the amount of revenues and adjustments in rates needed to achieve the revenue requirement. To estimate 2018 operating expenses of the O'Connell Bridge Float facility we used what is referred to as an Expense over Investment factor sometimes also referred to as an "E/I ratio". This cost estimating technique assumes that there is a relationship between a firms operating expenses and recorded plant in service. Using actual 2016 operating expenses and plant in service of the Harbor as report in the CBS Comprehensive Annual Financial Report (CAFR) we determined this factor to be 6.48%. Using this factor multiplied by the total

plant in service for the O'Connell facility (existing float facility, restroom and dock pile replacement at 2018 WIP amount) results in an "E/I Ratio" of \$142,351.

We then provided the proxy expense estimate to the Harbormaster and he believed that he would not consume this amount of his 2018 budget to operate the facility as it is current provisioned. Therefore, this amount is most likely excessive but is used in our cost study to determine the increase in rates needed to meet operating and capital reserve requirements and pay the depreciation expense on 100% of the O'Connell facility including depreciation associated with the dock pile replacement.

As shown in the Table 2 below rates would have to be increased 100% in 2018 and 95% in 2019 in order to maintain reserve levels and cover operating expenses including depreciation expense resulting in existing rates increasing from \$5.51 per foot per day to \$11.02 and \$21.49 in 2018 and 2019 respectively. However, rate increases significantly decrease ranging from 1.75% to 2% from 2020 through 2028. By 2028 the rate assuming increases used in the model would be \$25.31. Again, we believe the "E/I Ratio" method is estimating expense levels in excess of what is required. However, in order to provide key services demanded by focus group participants such as electric and water may require additional investment and over time this investment pay increase the operating expenses of this facility. However, discussions by the focus group participants indicate that not having to run generators and access to potable water saves them in future maintenance cost on generators, fuel costs and time.

SUMMARY RESULTS:

We believe that the proxy expense level is most likely too excessive, and therefore, the percent increase in rates too high. However, given the marketing information we obtained through the focus group session we believe that rate increases at these levels may not have an impact on demand for customers using the facility for berthing their yachts.

Table 2: Scenario Two - Expense Over Investment (E/I) Ratio Analysis

City and Borough of Sitka
Harbor Luxury Yacht Services
Summary



	FY Ending										
Capital Funding	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Total Capital Projects	\$ 560,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grants & Developer Donations	-	-	-	-	-	-	-	-	-	-	-
Principal Forgiveness	-	-	-	-	-	-	-	-	-	-	-
Use of Capital Fund Balance	560,000	-	-	-	-	-	-	-	-	-	-
ADEC & Other Loans	-	-	-	-	-	-	-	-	-	-	-
Total Funding Sources	\$ 560,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Revenue Requirements	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenues											
Rate Revenues Under Existing Rates	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000
Non-Rate Revenues	-	-	-	-	-	-	-	-	-	-	-
Non Operating Revenues	-	-	-	-	-	-	-	-	-	-	-
Total Revenues	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000
Expenses											
Cash Operating Expenses	\$ 124,351	\$ 126,882	\$ 129,464	\$ 132,099	\$ 134,788	\$ 137,531	\$ 140,330	\$ 143,186	\$ 146,100	\$ 149,074	\$ 152,108
Existing Debt Service	-	-	-	-	-	-	-	-	-	-	-
New Debt Service	-	-	-	-	-	-	-	-	-	-	-
Rate-Funded CIP	-	-	-	-	-	-	-	-	-	-	-
Rate Funded System Reinvestment	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347
Additions to Operating Reserve	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	\$ 126,698	\$ 129,229	\$ 131,811	\$ 134,446	\$ 137,134	\$ 139,878	\$ 142,677	\$ 145,533	\$ 148,447	\$ 151,421	\$ 154,455
Maximum Net (Cash or Coverage)	\$ (92,698)	\$ (95,229)	\$ (97,811)	\$ (100,446)	\$ (103,134)	\$ (105,878)	\$ (108,677)	\$ (111,533)	\$ (114,447)	\$ (117,421)	\$ (120,455)
Annual Rate Adjustment	100.00%	95.00%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	2.00%	2.00%	2.00%
Cumulative Rate Increase	100.00%	290.00%	296.83%	303.77%	310.84%	318.03%	325.34%	332.78%	341.44%	350.27%	359.27%
O'Connell Bridge Rate Per Ft. Per Day	\$11.02	\$21.49	\$21.87	\$22.25	\$22.64	\$23.03	\$23.44	\$23.85	\$24.32	\$24.81	\$25.31
Rate Revenues After Rate Increase	\$ 68,000	\$ 132,600	\$ 134,921	\$ 137,282	\$ 139,684	\$ 142,129	\$ 144,616	\$ 147,147	\$ 150,089	\$ 153,091	\$ 156,153
Net Cash Flow After Rate Increase	(58,698)	3,371	3,110	2,836	2,550	2,251	1,939	1,614	1,642	1,671	1,698
Coverage After Rate Increases	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Fund Balances - Projected Y-E	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Projected Operating Reserves	\$ 30,662	\$ 31,286	\$ 31,923	\$ 32,572	\$ 33,235	\$ 33,912	\$ 34,602	\$ 35,306	\$ 36,025	\$ 36,758	\$ 37,506
Projected Capital Reserves	2,987	8,081	12,900	17,433	21,667	25,588	29,184	32,440	35,710	38,994	42,291
Project Debt Reserves	-	-	-	-	-	-	-	-	-	-	-
Total	\$ 33,649	\$ 39,367	\$ 44,823	\$ 50,006	\$ 54,902	\$ 59,500	\$ 63,785	\$ 67,746	\$ 71,735	\$ 75,752	\$ 79,797
Operating Reserve Minimum	\$ 20,441	\$ 20,857	\$ 21,282	\$ 21,715	\$ 22,157	\$ 22,608	\$ 23,068	\$ 23,537	\$ 24,017	\$ 24,505	\$ 25,004
Capital Reserve Minimum	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380
Combined Minimum Target Balance	\$ 58,821	\$ 59,237	\$ 59,662	\$ 60,095	\$ 60,537	\$ 60,988	\$ 61,448	\$ 61,917	\$ 62,397	\$ 62,885	\$ 63,384

C. Cost Model Scenario Three: This scenario is very similar to scenario one above with the exception that we assume we burden the O'Connell Bridge Float facility to pay for dock pile replacement using debt rather than equity.

As shown in the Table 3 below the added debt service cost on top of the operating expenses set in scenario one above results in a need to adjust rates 50% in 2018 and again in 2019 but thereafter rate adjustment of only 1% each year are required in order to achieve operating and capital reserve requirements and cover the depreciation expense. In other words, rates would have to increase from the existing rate of \$5.51 per foot per day to \$8.27 in 2018 and by 2028 the rate would be \$13.56 per foot per day.

SUMMARY RESULTS:

This scenario is probably the most predictable as to operating expense levels

given discussions with CBS Harbor staff. Furthermore, we believe our marketing research would indicate that demand for this service is not impacted at the proposed rate adjustments.

Table 3: Scenario Three - Maintain Revenue Levels & Determine Operating Expense Requirements to Achieve Revenue Requirement but Pay Fund Improvements with Debt

**City and Borough of Sitka
Harbor Luxury Yacht Services
Summary**



	FY Ending										
Capital Funding	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Total Capital Projects	\$560,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grants & Developer Donations	-	-	-	-	-	-	-	-	-	-	-
Principal Forgiveness	-	-	-	-	-	-	-	-	-	-	-
Use of Capital Fund Balance	2,347	-	-	-	-	-	-	-	-	-	-
ADEC & Other Loans	557,653	-	-	-	-	-	-	-	-	-	-
Total Funding Sources	\$560,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue Requirements	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenues											
Rate Revenues Under Existing Rates	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000
Non-Rate Revenues	-	-	-	-	-	-	-	-	-	-	-
Non Operating Revenues	-	-	-	-	-	-	-	-	-	-	-
Total Revenues	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000
Expenses											
Cash Operating Expenses	\$ 28,000	\$ 28,588	\$ 29,188	\$ 29,801	\$ 30,427	\$ 31,066	\$ 31,718	\$ 32,385	\$ 33,065	\$ 33,759	\$ 34,468
Existing Debt Service	-	-	-	-	-	-	-	-	-	-	-
New Debt Service	-	44,748	44,748	44,748	44,748	44,748	44,748	44,748	44,748	44,748	44,748
Rate-Funded CIP	-	-	-	-	-	-	-	-	-	-	-
Rate Funded System Reinvestment	2,347	2,533	2,533	2,533	2,533	2,533	2,533	2,533	2,533	2,533	2,533
Additions to Operating Reserve	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	\$ 30,347	\$ 75,869	\$ 76,469	\$ 77,082	\$ 77,708	\$ 78,347	\$ 78,999	\$ 79,665	\$ 80,346	\$ 81,040	\$ 81,749
Maximum Net (Cash or Coverage)	\$ 3,653	\$(41,869)	\$(42,469)	\$(43,082)	\$(43,708)	\$(44,347)	\$(44,999)	\$(45,665)	\$(46,346)	\$(47,040)	\$(47,749)
Annual Rate Adjustment	50.00%	50.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Cumulative Rate Increase	50.00%	125.00%	127.25%	129.52%	131.82%	134.14%	136.48%	138.84%	141.23%	143.64%	146.08%
O'Connell Bridge Rate Per Ft. Per Day	\$8.27	\$12.40	\$12.52	\$12.65	\$12.77	\$12.90	\$13.03	\$13.16	\$13.29	\$13.42	\$13.56
Rate Revenues After Rate Increase	\$ 51,000	\$ 76,500	\$ 77,265	\$ 78,038	\$ 78,818	\$ 79,606	\$ 80,402	\$ 81,206	\$ 82,018	\$ 82,839	\$ 83,667
Net Cash Flow After Rate Increase	20,653	631	796	955	1,110	1,259	1,403	1,541	1,673	1,799	1,918
Coverage After Rate Increases	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fund Balances - Projected Y-E	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Projected Operating Reserves	\$ 6,904	\$ 7,049	\$ 7,197	\$ 7,348	\$ 7,503	\$ 7,660	\$ 7,821	\$ 7,985	\$ 8,153	\$ 8,324	\$ 8,499
Projected Capital Reserve	14,749	17,769	20,950	24,287	27,776	31,411	35,187	39,097	43,135	47,296	51,573
Projected Debt Reserve	-	-	-	-	-	-	-	-	-	-	-
Total	\$ 21,653	\$ 24,818	\$ 28,147	\$ 31,636	\$ 35,279	\$ 39,072	\$ 43,008	\$ 47,082	\$ 51,288	\$ 55,620	\$ 60,072
Minimum Operating Reserve	\$ 4,603	\$ 4,699	\$ 4,798	\$ 4,899	\$ 5,002	\$ 5,107	\$ 5,214	\$ 5,323	\$ 5,435	\$ 5,549	\$ 5,666
Minimum Capital Reserve	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380
Combined Minimum Target Balance	\$ 42,983	\$ 43,079	\$ 43,178	\$ 43,279	\$ 43,382	\$ 43,487	\$ 43,594	\$ 43,703	\$ 43,815	\$ 43,929	\$ 44,046

Conclusion

Our marketing research leads us to conclude that yacht customers are not price sensitive for berthing services. Instead, they are sensitive to location and services as described in this report using a billing method that bundles all services into a single rate. We have taken this marketing information and develop a cost model and ran three separate scenarios through it in an attempt to determine if the O'Connell Bridge Float facility can cover its direct cost and make a reasonable contribution to the joint and common cost of the Harbor Enterprise fund of CBS. We believe that there is a reasonably high probability that the facility can be operated profitability.

Exhibit A – Market Research Study



CITY AND BOROUGH AND SITKA, ALASKA

**Cost Study and Marketing Research Results and
Recommendations For**

O'Connell Bridge Lightering Float

**By Parrish Blessing and Associates
1415 P Street
Anchorage, Alaska 99501**

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Executive Summary

We are pleased to present the results of our marketing research and cost study results performed on behalf of the City and Borough of Sitka, Alaska for the O'Connell Bridge Lightering Float operated by the Harbor Enterprise Fund.

Background:

The City and Borough of Sitka (CBS) operates and maintains the O'Connell Bridge Lightering Float where cruise ship operators can embark and disembark their passengers and crew that desire to visit Sitka, Alaska when their vessels arrive in port. The O'Connell Bridge facility is also used to berth high end yachts while their passengers and crew also visit and enjoy Sitka, Alaska.

We understand that the O'Connell float was recently damaged in a storm, and further, that CBS is experiencing cost overruns due to unanticipated and expensive environmental permitting costs, as well as expensive placement costs to replace failed piling given bedrock conditions at the facility. We also understand the CBS Assembly's concern that rates at this facility should be set to cover its current and anticipated long run direct cost as well as make a reasonable contribution to the joint and common costs of the Harbor operations at Sitka, Alaska. Therefore, the purpose of this report is two-fold. First, to perform marketing research to identify the services yacht owners and operator's desire from this facility and the price they would be willing to pay for these services. Second, develop a cost study using the results obtained from the marketing research to evaluation if the facility can profitability provide the desired services.

In our kickoff meeting CBS stakeholders confirmed the two-fold purpose of this engagement. Therefore, our work plan to meet the required scope of services was to begin our marketing research by assembling a focus group session designed to identify the desired services yacht owners and operator's desire and the price for these services. The marketing research study is attached as an exhibit to this report, and further, we will summarize the results of that study in this report and how we used the marketing data in our cost study to determine the profitability of this facility over a ten year forecast period.

As will be more fully discussed in the body of this report our marketing research and the cost models indicate the following:

1. Yacht customers are not price sensitive and as long as the services requested are available and offered in a bundled offering that rates can be increased significantly over the current rate level.
2. The O'Connell facility if designed to provide the requesting services can cover its direct cost and make a reasonable contribution to the Harbors direct and common costs.

Marketing Research Methods and Results:

In this section of our report we will only summarize the findings and recommendations of the focus group and how we used the marketing data in our overall cost study model. As noted above the full marketing research report is attached as an exhibit to this report.

The primary purpose of the marketing research was to gain a better understanding of the services demanded by customers that berth their yachts at the O'Connell Bridge Float facility and the price they would be willing to pay for these services. Our marketing research sub-consultant (Craciun Research Group) selected individuals to participate in a telephonic focus group consisting of yacht captains and individuals who make arrangements for yacht clients who use the O'Connell Bridge Float facility.

Craciun Research prepared a Discussion Guide that summarizes what was to be discussed during the focus group session and is attached to their report. The following topics were covered during the session:

1. Attitude about O'Connell Bridge Float Facility and Sitka Harbor
2. Attitude about Sitka
3. Ideal customers
4. Key services and amenities expected from yacht docking facilities
5. Ideal experience for yacht users
6. Make or break price points

During the focus group session we learned that all participants knew about the O'Connell Bridge Float dock and their use varied from regular to rare use of the facility. Participants noted that the facility was very accessible but that accessibility caused security concerns that might be solved with security gates installed with access codes. Further, participants had complaints about wake issue experienced during their visit to the facility.

Participants said they prefer Sitka over other neighboring communities such as Juneau and Ketchikan as these cities seemed to be overrun by cruise ships, but they also commented that more attention could be paid to organized tour options for their passengers and crew.

Key services that were identified during the session included:

1. Privacy and security for yacht users and owners with security gates with access codes
2. Reliable power, with connections on both ends of the dock
3. Reliable WI-Fi connectivity
4. Water connection
5. Scheduled garbage pick-up or dumpster facilities
6. Accessible dock carts

7. Slip reservations

After discussing the service expectations in the yachting experience, the question that arises is at what price do we offer these services, amenities and experiences, and who pays for it? What came out of the discussion was a somewhat surprising assertion that price just really didn't matter and wasn't a part of the everyday conversions for this population. The pricing came down to being able to make a reservation for a slip and providing that reservation and all the related costs and fees for related experiences, services and amenities in a bundled price on a single bill.

Cost Study Analysis Results:

As part of this engagement we proposed to develop a cost model using a Microsoft Excel based application that determines on a 10 year forward-looking basis the revenue requirement/cost of service for the O'Connell Bridge Float facility. This cost model will provide an effective management tool both now and in the future that addresses the following topics:

1. A determination on whether the O'Connell Bridge Float facility, at proposed rates would cover its revenue requirement and percent change in rates needed to achieve the revenue requirement each year over the forecast period.
2. A determination of the contribution margin for this class of service offered by the Harbor.
3. Rate structures grounded in current best cost-of-service and recovery practices that also adequately address the balance of perspectives and needs of the harbor and customers service.

The base line cost study began with the 2018 budgeted costs to operate the entire Harbor enterprise operation. We then developed three scenarios using the cost model as more fully described below.

In each of the three cost model scenarios there are three fundamental factors that are always accounted for in determining the revenue requirement/cost of service for the O'Connell Bridge Float facility. These include:

- a. Rates for the facility will be set so that year-end operating reserves meet best practices of a minimum of 60 and maximum of 90 days of cash operating expenses each year over the forecast period.
- b. Rates for the facility will be set so that year-end capital reserves meet best practices of a minimum of 2% of plant in service over the forecast period.
- c. Rates for the facility will be set to cover 100% of the depreciation expense for the O'Connell float, restroom and float pile replacement.

A. Cost Model Scenario One: In scenario one we assumed that the revenue associated with the O'Connell Bridge facility would remain approximately close to the level recorded on the Harbor's 2017 Statement of Revenue Expenses and

Change in Net Position, or approximately \$34,000. We then use the model to determine the required level of expenses for 2018 in order to maintain operating and capital reserves as recommended above and cover 100% of the depreciation expense of the O'Connell Facility.

As shown in Table 1 below for 2018 \$34,000 in revenue can support an operating expense of \$30,347 and still provide the needed operating and capital reserves that we said above are needed to achieve best practices in setting reserve levels. We then provided this information to the Harbormaster for his assessment of the reasonableness of the expense level to operate the O'Connell Bridge Float facility. The Harbormaster believed he could operate the float at this embedded expense level.

Table 1 also shows that for the remaining forecast years (2019 – 2028) the cost model assumes that operating expenses will increase 2% per year. In order to maintain a positive cash flow and reserves at recommended levels rates must be increased by 1% each year beginning in 2019 through 2023 and then increase to 1.5% from 2024 through 2028. In other words the rate would change from its current \$5.51 per foot per day to \$6.24 at the end of 2028.

SUMMARY OF RESULTS:

Other relevant points to note in this scenario is that the dock piling replacement currently booked at \$560,000 will be paid by the Harbor using its equity and not debt. A review of the unrestricted net position of the Harbor indicates that it is well reserved to cover this cost. Finally, in our opinion and assuming these conservative assumptions for revenues and expenses are achieved the adjustments to rates are well within the zone of what our marketing research indicates is possible for this service.

Table 1: Scenario One – Maintain Revenue Levels & Determine Operating Expense Requirements to Achieve Revenue Requirement.

City and Borough of Sitka
Harbor Luxury Yacht Services
Summary



	FY Ending										
Capital Funding	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Total Capital Projects	\$ 560,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grants & Developer Donations	-	-	-	-	-	-	-	-	-	-	-
Principal Forgiveness	-	-	-	-	-	-	-	-	-	-	-
Use of Capital Fund Balance	560,000	-	-	-	-	-	-	-	-	-	-
ADEC & Other Loans	-	-	-	-	-	-	-	-	-	-	-
Total Funding Sources	\$ 560,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue Requirements	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenues											
Rate Revenues Under Existing Rates	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000
Non-Rate Revenues	-	-	-	-	-	-	-	-	-	-	-
Non Operating Revenues	-	-	-	-	-	-	-	-	-	-	-
Total Revenues	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000
Expenses											
Cash Operating Expenses	\$ 28,000	\$ 28,588	\$ 29,188	\$ 29,801	\$ 30,427	\$ 31,066	\$ 31,718	\$ 32,385	\$ 33,065	\$ 33,759	\$ 34,468
Existing Debt Service	-	-	-	-	-	-	-	-	-	-	-
New Debt Service	-	-	-	-	-	-	-	-	-	-	-
Rate-Funded CIP	-	-	-	-	-	-	-	-	-	-	-
Rate Funded System Reinvestment	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347
Additions to Operating Reserve	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	\$ 30,347	\$ 30,935	\$ 31,535	\$ 32,148	\$ 32,774	\$ 33,413	\$ 34,065	\$ 34,731	\$ 35,411	\$ 36,106	\$ 36,815
Maximum Net (Cash or Coverage)	\$ 3,653	\$ 3,065	\$ 2,465	\$ 1,852	\$ 1,226	\$ 587	\$ (65)	\$ (731)	\$ (1,411)	\$ (2,106)	\$ (2,815)
Annual Rate Adjustment	0.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.50%	1.50%	1.50%	1.50%	1.50%
Cumulative Rate Increase	0.00%	1.00%	2.01%	3.03%	4.06%	5.10%	6.68%	8.28%	9.90%	11.55%	13.22%
O'Connell Bridge Rate Per Ft. Per Day	\$5.51	\$5.57	\$5.62	\$5.68	\$5.73	\$5.79	\$5.88	\$5.97	\$6.06	\$6.15	\$6.24
Rate Revenues After Rate Increase	\$ 34,000	\$ 34,340	\$ 34,683	\$ 35,030	\$ 35,381	\$ 35,734	\$ 36,270	\$ 36,814	\$ 37,367	\$ 37,927	\$ 38,496
Net Cash Flow After Rate Increase	3,653	3,405	3,148	2,882	2,607	2,322	2,205	2,083	1,955	1,821	1,681
Coverage After Rate Increases	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fund Balances - Projected Y-E	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Projected Operating Reserves	\$ 4,653	\$ 7,049	\$ 7,197	\$ 7,348	\$ 7,503	\$ 7,660	\$ 7,821	\$ 7,985	\$ 8,153	\$ 8,324	\$ 8,499
Projected Capital Reserves	2,347	5,703	11,050	16,128	20,927	25,437	29,829	34,094	38,228	42,225	46,079
Projected Debt Service Reserves	-	-	-	-	-	-	-	-	-	-	-
Total	\$ 7,000	\$ 12,752	\$ 18,247	\$ 23,476	\$ 28,429	\$ 33,098	\$ 37,649	\$ 42,079	\$ 46,381	\$ 50,549	\$ 54,578
Operating Reserve Minimum	\$ 4,603	\$ 4,699	\$ 4,798	\$ 4,899	\$ 5,002	\$ 5,107	\$ 5,214	\$ 5,323	\$ 5,435	\$ 5,549	\$ 5,666
Capital Reserve Minimum	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380
Combined Minimum Target Balance	\$ 42,983	\$ 43,079	\$ 43,178	\$ 43,279	\$ 43,382	\$ 43,487	\$ 43,594	\$ 43,703	\$ 43,815	\$ 43,929	\$ 44,046

B. Cost Model Scenario Two: In this scenario we attempted to determine an expense level for 2018 required to operate the O'Connell Bridge Float facility and then used the model to determine the amount of revenues and adjustments in rates needed to achieve the revenue requirement. To estimate 2018 operating expenses of the O'Connell Bridge Float facility we used what is referred to as an Expense over Investment factor sometimes also referred to as an "E/I ratio". This cost estimating technique assumes that there is a relationship between a firms operating expenses and recorded plant in service. Using actual 2016 operating expenses and plant in service of the Harbor as report in the CBS Comprehensive Annual Financial Report (CAFR) we determined this factor to be 6.48%. Using this factor multiplied by the total

plant in service for the O'Connell facility (existing float facility, restroom and dock pile replacement at 2018 WIP amount) results in an "E/I Ratio" of \$142,351.

We then provided the proxy expense estimate to the Harbormaster and he believed that he would not consume this amount of his 2018 budget to operate the facility as it is current provisioned. Therefore, this amount is most likely excessive but is used in our cost study to determine the increase in rates needed to meet operating and capital reserve requirements and pay the depreciation expense on 100% of the O'Connell facility including depreciation associated with the dock pile replacement.

As shown in the Table 2 below rates would have to be increased 100% in 2018 and 95% in 2019 in order to maintain reserve levels and cover operating expenses including depreciation expense resulting in existing rates increasing from \$5.51 per foot per day to \$11.02 and \$21.49 in 2018 and 2019 respectively. However, rate increases significantly decrease ranging from 1.75% to 2% from 2020 through 2028. By 2028 the rate assuming increases used in the model would be \$25.31. Again, we believe the "E/I Ratio" method is estimating expense levels in excess of what is required. However, in order to provide key services demanded by focus group participants such as electric and water may require additional investment and over time this investment may increase the operating expenses of this facility. However, discussions by the focus group participants indicate that not having to run generators and access to potable water saves them in future maintenance cost on generators, fuel costs and time.

SUMMARY RESULTS:

We believe that the proxy expense level is most likely too excessive, and therefore, the percent increase in rates too high. However, given the marketing information we obtained through the focus group session we believe that rate increases at these levels may not have an impact on demand for customers using the facility for berthing their yachts.

Table 2: Scenario Two - Expense Over Investment (E/I) Ratio Analysis

City and Borough of Sitka
Harbor Luxury Yacht Services
Summary



	FY Ending										
Capital Funding	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Total Capital Projects	\$ 560,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grants & Developer Donations	-	-	-	-	-	-	-	-	-	-	-
Principal Forgiveness	-	-	-	-	-	-	-	-	-	-	-
Use of Capital Fund Balance	560,000	-	-	-	-	-	-	-	-	-	-
ADEC & Other Loans	-	-	-	-	-	-	-	-	-	-	-
Total Funding Sources	\$ 560,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Revenue Requirements	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenues											
Rate Revenues Under Existing Rates	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000
Non-Rate Revenues	-	-	-	-	-	-	-	-	-	-	-
Non Operating Revenues	-	-	-	-	-	-	-	-	-	-	-
Total Revenues	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000
Expenses											
Cash Operating Expenses	\$ 124,351	\$ 126,882	\$ 129,464	\$ 132,099	\$ 134,788	\$ 137,531	\$ 140,330	\$ 143,186	\$ 146,100	\$ 149,074	\$ 152,108
Existing Debt Service	-	-	-	-	-	-	-	-	-	-	-
New Debt Service	-	-	-	-	-	-	-	-	-	-	-
Rate-Funded CIP	-	-	-	-	-	-	-	-	-	-	-
Rate Funded System Reinvestment	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347
Additions to Operating Reserve	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	\$ 126,698	\$ 129,229	\$ 131,811	\$ 134,446	\$ 137,134	\$ 139,878	\$ 142,677	\$ 145,533	\$ 148,447	\$ 151,421	\$ 154,455
Maximum Net (Cash or Coverage)	\$ (92,698)	\$ (95,229)	\$ (97,811)	\$ (100,446)	\$ (103,134)	\$ (105,878)	\$ (108,677)	\$ (111,533)	\$ (114,447)	\$ (117,421)	\$ (120,455)
Annual Rate Adjustment	100.00%	95.00%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	2.00%	2.00%	2.00%
Cumulative Rate Increase	100.00%	290.00%	296.83%	303.77%	310.84%	318.03%	325.34%	332.78%	341.44%	350.27%	359.27%
O'Connell Bridge Rate Per Ft. Per Day	\$11.02	\$21.49	\$21.87	\$22.25	\$22.64	\$23.03	\$23.44	\$23.85	\$24.32	\$24.81	\$25.31
Rate Revenues After Rate Increase	\$ 68,000	\$ 132,600	\$ 134,921	\$ 137,282	\$ 139,684	\$ 142,129	\$ 144,616	\$ 147,147	\$ 150,089	\$ 153,091	\$ 156,153
Net Cash Flow After Rate Increase	(58,698)	3,371	3,110	2,836	2,550	2,251	1,939	1,614	1,642	1,671	1,698
Coverage After Rate Increases	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Fund Balances - Projected Y-E	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Projected Operating Reserves	\$ 30,662	\$ 31,286	\$ 31,923	\$ 32,572	\$ 33,235	\$ 33,912	\$ 34,602	\$ 35,306	\$ 36,025	\$ 36,758	\$ 37,506
Projected Capital Reserves	2,987	8,081	12,900	17,433	21,667	25,588	29,184	32,440	35,710	38,994	42,291
Project Debt Reserves	-	-	-	-	-	-	-	-	-	-	-
Total	\$ 33,649	\$ 39,367	\$ 44,823	\$ 50,006	\$ 54,902	\$ 59,500	\$ 63,785	\$ 67,746	\$ 71,735	\$ 75,752	\$ 79,797
Operating Reserve Minimum	\$ 20,441	\$ 20,857	\$ 21,282	\$ 21,715	\$ 22,157	\$ 22,608	\$ 23,068	\$ 23,537	\$ 24,017	\$ 24,505	\$ 25,004
Capital Reserve Minimum	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380
Combined Minimum Target Balance	\$ 58,821	\$ 59,237	\$ 59,662	\$ 60,095	\$ 60,537	\$ 60,988	\$ 61,448	\$ 61,917	\$ 62,397	\$ 62,885	\$ 63,384

C. Cost Model Scenario Three: This scenario is very similar to scenario one above with the exception that we assume we burden the O'Connell Bridge Float facility to pay for dock pile replacement using debt rather than equity.

As shown in the Table 3 below the added debt service cost on top of the operating expenses set in scenario one above results in a need to adjust rates 50% in 2018 and again in 2019 but thereafter rate adjustment of only 1% each year are required in order to achieve operating and capital reserve requirements and cover the depreciation expense. In other words, rates would have to increase from the existing rate of \$5.51 per foot per day to \$8.27 in 2018 and by 2028 the rate would be \$13.56 per foot per day.

SUMMARY RESULTS:

This scenario is probably the most predictable as to operating expense levels

given discussions with CBS Harbor staff. Furthermore, we believe our marketing research would indicate that demand for this service is not impacted at the proposed rate adjustments.

Table 3: Scenario Three - Maintain Revenue Levels & Determine Operating Expense Requirements to Achieve Revenue Requirement but Pay Fund Improvements with Debt

City and Borough of Sitka
Harbor Luxury Yacht Services
Summary



	FY Ending										
Capital Funding	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Total Capital Projects	\$560,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grants & Developer Donations	-	-	-	-	-	-	-	-	-	-	-
Principal Forgiveness	-	-	-	-	-	-	-	-	-	-	-
Use of Capital Fund Balance	2,347	-	-	-	-	-	-	-	-	-	-
ADEC & Other Loans	557,653	-	-	-	-	-	-	-	-	-	-
Total Funding Sources	\$560,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Revenue Requirements	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenues											
Rate Revenues Under Existing Rates	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000
Non-Rate Revenues	-	-	-	-	-	-	-	-	-	-	-
Non Operating Revenues	-	-	-	-	-	-	-	-	-	-	-
Total Revenues	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000
Expenses											
Cash Operating Expenses	\$ 28,000	\$ 28,588	\$ 29,188	\$ 29,801	\$ 30,427	\$ 31,066	\$ 31,718	\$ 32,385	\$ 33,065	\$ 33,759	\$ 34,468
Existing Debt Service	-	-	-	-	-	-	-	-	-	-	-
New Debt Service	-	44,748	44,748	44,748	44,748	44,748	44,748	44,748	44,748	44,748	44,748
Rate-Funded CIP	-	-	-	-	-	-	-	-	-	-	-
Rate Funded System Reinvestment	2,347	2,533	2,533	2,533	2,533	2,533	2,533	2,533	2,533	2,533	2,533
Additions to Operating Reserve	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	\$ 30,347	\$ 75,869	\$ 76,469	\$ 77,082	\$ 77,708	\$ 78,347	\$ 78,999	\$ 79,665	\$ 80,346	\$ 81,040	\$ 81,749
Maximum Net (Cash or Coverage)	\$ 3,653	\$(41,869)	\$(42,469)	\$(43,082)	\$(43,708)	\$(44,347)	\$(44,999)	\$(45,665)	\$(46,346)	\$(47,040)	\$(47,749)
Annual Rate Adjustment	50.00%	50.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Cumulative Rate Increase	50.00%	125.00%	127.25%	129.52%	131.82%	134.14%	136.48%	138.84%	141.23%	143.64%	146.08%
O'Connell Bridge Rate Per Ft. Per Day	\$8.27	\$12.40	\$12.52	\$12.65	\$12.77	\$12.90	\$13.03	\$13.16	\$13.29	\$13.42	\$13.56
Rate Revenues After Rate Increase	\$ 51,000	\$ 76,500	\$ 77,265	\$ 78,038	\$ 78,818	\$ 79,606	\$ 80,402	\$ 81,206	\$ 82,018	\$ 82,839	\$ 83,667
Net Cash Flow After Rate Increase	20,653	631	796	955	1,110	1,259	1,403	1,541	1,673	1,799	1,918
Coverage After Rate Increases	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Fund Balances - Projected Y-E	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Projected Operating Reserves	\$ 6,904	\$ 7,049	\$ 7,197	\$ 7,348	\$ 7,503	\$ 7,660	\$ 7,821	\$ 7,985	\$ 8,153	\$ 8,324	\$ 8,499
Projected Capital Reserve	14,749	17,769	20,950	24,287	27,776	31,411	35,187	39,097	43,135	47,296	51,573
Projected Debt Reserve	-	-	-	-	-	-	-	-	-	-	-
Total	\$ 21,653	\$ 24,818	\$ 28,147	\$ 31,636	\$ 35,279	\$ 39,072	\$ 43,008	\$ 47,082	\$ 51,288	\$ 55,620	\$ 60,072
Minimum Operating Reserve	\$ 4,603	\$ 4,699	\$ 4,798	\$ 4,899	\$ 5,002	\$ 5,107	\$ 5,214	\$ 5,323	\$ 5,435	\$ 5,549	\$ 5,666
Minimum Capital Reserve	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380	38,380
Combined Minimum Target Balance	\$ 42,983	\$ 43,079	\$ 43,178	\$ 43,279	\$ 43,382	\$ 43,487	\$ 43,594	\$ 43,703	\$ 43,815	\$ 43,929	\$ 44,046

Conclusion

Our marketing research leads us to conclude that yacht customers are not price sensitive for berthing services. Instead, they are sensitive to location and services as described in this report using a billing method that bundles all services into a single rate. We have taken this marketing information and develop a cost model and ran three separate scenarios through it in an attempt to determine if the O'Connell Bridge Float facility can cover its direct cost and make a reasonable contribution to the joint and common cost of the Harbor Enterprise fund of CBS. We believe that there is a reasonably high probability that the facility can be operated profitability.

Exhibit A – Market Research Study

CRACIUN RESEARCH GROUP

City and Borough of Sitka



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Executive Summary

William (Bill) Wilks, Principal-Managing Partner for Alaska Utility Operations with Parrish, Blessing and Associates, contracted with Craciun Research Group (Craciun) on behalf of the City and Borough of Sitka (Sitka), to gain a better understanding on how to make Sitka the best docking Port in Southeast Alaska. Sitka is currently repairing and renovating the O'Connell Bridge Float facility to better accommodate yachts that dock in Sitka Harbor. As part of this effort, Sitka is seeking to understand the services and facility amenities yacht users of the O'Connell Bridge facility would prefer or require, and the related price points. Mr. Wilks requested the assistance of Jean Craciun, Owner and CEO of Craciun Research Group, to moderate a telephonic focus group to better explore these services from the perspective of O'Connell Bridge facility users.

Individuals selected to participate in the telephonic focus group were yacht captains and individuals who make arrangements for yacht clients who use the O'Connell Bridge facility. Only one focus group of homogenous individuals was held. Six individuals were invited and agreed to participate. Due to extenuating circumstances, such as being out of cell-phone range, two additional individuals were subsequently unable to participate. A third person that assists yacht captains with arrangements for yacht clients was able to attend only half of the focus group session.

DISCUSSION WITH YACHT CAPTAINS and OTHERS

Attitude About O'Connell Bridge Facility and Sitka Harbor

- All knew about the O'Connell dock; use varies from regular to rarely used
- Wake issues affect larger yachts on the docks
- It's very accessible, but that accessibility causes security concerns

Attitude About Sitka

- Yacht clients like Sitka; it is the one harbor town in Alaska they enjoy mooring at
- Not as over-run with cruise ships as Juneau and Ketchikan
- First impressions are good, but more attention could be paid to the details
- Organized tour options not as good as it used to be

Key Services and Amenities Expected from Yacht Docking Facilities

- Security and limited access; keep the public from wandering around the yachts
- Adequate lighting on docks and ramps
- Privacy & security for yacht users and owners
- Designated parking for yachts
- Reliable power, with connections on both ends of the dock

- Reliable Wi-Fi connectivity
- Water connection
- Scheduled garbage pick-up or dumpster facilities
- Accessible dock carts
- Control the wake

Ideal Experience for Yacht Users

- Anonymity; they want to blend in with the crowd or have a private experience
- Yacht crew and owner amenities attract them to the destination
- Up-to-date local information readily available; fishing reports etc.
- Last-minute planning or changes easily accommodated
- Concierge service would exceed expectations and be a bonus
- Slip reservations
- Wi-Fi accessibility, with an “all-user” log-in
- Exclusivity is important so institute access cards

FINAL ADVICE FOR SITKA FROM FOCUS GROUP PARTICIPANTS

- Provide increased security with controlled access
- Fix the wake problem so that the larger boats can comfortably and safely dock at the O’Connell Bridge facility
- Amenities such as Wi-Fi connectivity, power connectivity and water connectivity at the dock makes it easier for the yachts to stay berthed for longer periods of time; the port should provide these, but yacht users would be willing to pay for them as part of their moorage fees
- Provide perks for the crew and owners, such as parking and complimentary or temporary gym memberships while they are in port
- Put mechanisms in place to help ensure the privacy and anonymity of yacht guests
- Provide information packets to captains immediately upon mooring that include features such as dock access (i.e., a access key card); local services and where to find them; up-to-date fishing, charter tours and adventure tours information; availability of private boats, private jets and similar amenities; local sights and how to get there; current reservations made on behalf of the guest for dinner, shows or similar
- Provide one Wi-Fi log-in for one price (as part of the yacht services package) for the captain, crew and guest(s)
- To the extent possible, have one moorage bill that includes all services, not multiple bills for different services

Background & Research Methods

Background

The primary purpose of the study by Craciun Research was to gain a better understanding of how the City and Borough of Sitka (Sitka) can make its harbor, specifically the O'Connell Bridge Float facility, the best docking Port in Southeast Alaska. Sitka is currently repairing and renovating the O'Connell Bridge Float facility to better accommodate yachts that dock in Sitka Harbor. As part of this effort, Sitka is seeking to understand the services and facility amenities yacht users of the O'Connell Bridge facility would prefer or require, and the related price points.

In order to provide the City and Borough of Sitka with comprehensive feedback on the types of services and amenities important to yacht captains and users who would berth at the O'Connell Bridge Facility, a comprehensive qualitative research design was recommended by Craciun Research Group that included one telephonic focus group with yacht captains and those who arrange yacht user services. Jean Craciun, Sociologist, collaborated with Bill Wilks (Principal-Managing Partner for Alaska Utility Operations with Parrish, Blessing and Associates) acting on behalf of the City and Borough of Sitka, on the focus group discussion guide to ensure a successful project.

Participants for the group were recruited first by Mr. Wilks (with assistance by Fred Reeder, owner of Yacht Services of Alaska), then supported by Craciun to confirm, screen and invite each group member. The focus group was held telephonically on February 5, 2018.

Ms. Craciun moderated the focus group; she holds a Master's degree in Sociology from Cleveland State University and has completed course work on a doctoral degree in Human Resources Education from Boston University. She currently serves on a national board that establishes standards for Qualitative Research Consultants Association (QRCA).

Qualitative Research Background

Focus group research by design provides quality controls on data collection in that participants tend to provide checks and balances on each other, which weed out false or extreme views. The group dynamics typically contribute to focusing on the most important topics and issues being discussed. Trained qualitative analysts can assess the extent to which there is a relatively consistent, shared view of the discussion topics among the participants. ¹

¹ Patton, Michael Quinn, How to Use Qualitative Methods in Evaluation, Sage Publications, November 1987

The focus group interview is an information gathering process that seeks to discover the perceptions, feelings, and experiences of the selected participants about a particular topic. Focus Groups help to determine the ways that participants structure their world around the particular topic. The focus group participants respond to the questions in their own words and trained observers can learn much from the group interview.

The unit of analysis for this type of research is “the group” and not the individual. From the focus group interview we learn how people view the particular topic or experience, hear their terminology and capture the complexities of the individual experiences in a group interview environment.²

A focus group study is a carefully planned series of discussions designed to obtain perceptions on a defined area of interest in a permissive, non-threatening environment. A trained professional moderator conducts each group, usually with six to eight people. The discussions are relaxed, and often participants enjoy sharing their ideas and perceptions. And [Ideally] you don’t do just one focus group. The group discussion is conducted multiple times with carefully selected participants so the researcher can identify trends and patterns.³

Notes to Readers

The participants’ verbatim comments are indented rather than set off in quotation marks. Brackets set off the analyst’s explanations of some of the participants’ comments. Themes are analyzed and developed to facilitate in-depth understanding of the participants’ perspectives on the issues being studied.

² Gredler, Margaret E., Program Evaluation, Prentice Hall, September 1995.

³ Krueger, Richard A., Casey, Mary Anne, Focus Groups 3rd Edition - A Practical Guide for Applied Research, Sage Publication, Inc. 2000

Research Findings

Jean Craciun, moderator for the focus group led the discussion among the participants, who were all yacht captains or a provider of yacht user services. The intent of the discussion was to better understand how the City and Borough of Sitka (Sitka) could make its harbor, specifically the O'Connell Bridge Float facility, a better place to moor a yacht in Southeast Alaska. In other words, what services and facility amenities do yacht users expect from a top-notch facility, what would be essential versus "nice to have", and what price would users be willing to pay for them. The following is a narrative of the discussion that ensued with verbatim comments by group members.

ATTITUDE ABOUT O'CONNELL BRIDGE FACILITY AND SITKA HARBOR

Before exploring the kind of amenities and services Sitka Harbor should provide at its facilities, it was important to ascertain what the overall existing attitude is about the O'Connell Bridge Facility and Sitka Harbor.

All yacht captains were somewhat familiar with Sitka Harbor and the O'Connell Bridge Float facility. One of the captains uses it regularly, one hasn't used it in 4 years, and one has rarely used it but has been by the dock and has heard about it from other captains who use it regularly. All of them felt that the harbor and port facilities were well received within the yachting industry.

I have been very well received with people of Sitka as far as using the port facilities and that's been true for many years.

While the O'Connell Bridge facility is well received, there are concerns about how much wake is generated and how it affects larger yachts on the docks.

Concerning the O'Connell Dock, when I was there last summer, there was considerable amount of wake causing a lot of flexing on the mooring lines and also the pilings with the larger yachts on the dock. Pilings are beginning to work loose.

Similar. I've seen the wake issues there, I've heard about it from other captains who have been put out there, bring that up as a concern.

All of the participants commented that the dock was public and therefore very accessible to everyone. Because of its downtown location, anyone can wander around the yachts; this seems especially true during cruise season. This easy access is a cause for concern about security.

From a captain's point of view, the O'Connell dock is very accessible to people in general... mainly because it is right downtown and there are a lot of people that come in on cruise ships and various things. Would be better to make some provisions to exclude them from actually coming down to the dock and creating issues.

ATTITUDE ABOUT SITKA

The port and harbors for Sitka are just part of the existing yacht facilities spread throughout Southeastern Alaska, and Alaska in whole. If Sitka wants to be the best, there needs to be a baseline to measure itself against. So the discussion briefly looked at how Sitka is perceived as a place to visit and moor a yacht.

The captains believe that Sitka is the one harbor town in Alaska that their clients enjoy mooring. There are things to do, it's rich with history, it's walkable and there is less cruise ship passenger traffic than cities such as Juneau or Ketchikan. In fact, when asked what should change if Sitka wanted to ramp up the experience to be the best port in Alaska, there was consensus that it was already a top-notch port.

At the moment, I tend to think that it is [in response to question about what would make Sitka the best]. And it's mainly because of the history of the town, and it's relatively a good civic community, plus the activities that go on throughout the summer months.

For my clients, guests over the years, it's always been the one town they've enjoyed... going to a dock. In a lot of other towns, we try not to, it's more they're pickup towns, where they fly in and you're off the dock in a matter of minutes, an hour. We've always found the town [Sitka] has been very walkable, nice, a different feeling. I get a lot from guests that it's not as over-run with cruise ships as Juneau and Ketchikan. Even though the cruise ships are there, it's not in your face.

The captains feel that first impressions make a difference. They explained that when you walk around a town you want to feel like its residents care about your presence there. Sitka makes a good first impression, but the area around the harbor could be cleaner and the handling of waste could be more progressive (recycle).

The only thing I could think of is the street cleaning, especially around the harbors. Could be a little more progressive in that there tends to be spills with garbage, and oil clean-up, oil changes and stuff like that. If that could be a little more detailed, it would make a better impression.

Garbage is always an issue... but of course Sitka doesn't do a very consistent recycling thing so there does tend to be a fair amount of garbage produced by the yachts.

The captains and the individuals who make arrangements for yacht guests are most often the ones finding and booking tours for their clients. The participants feel that organizing tours for their clients, especially private ones, is more difficult in Sitka than it used to be, particularly with the demise of Sitka Tours.

Since Sitka tours ceased to exist, it hasn't been quite as good for organizing tours around Sitka... Alaska Coach Tours I think is doing a pretty good job, but it's not as good as it used to be when Sitka Tours was running. So maybe there can be some work with Alaska Coach Tours or the Tribal Tours and try to make something a little more effective there.

IDEAL CUSTOMERS

In order to understand what services and amenities Sitka should provide users of its yacht mooring facilities, it was important to know from their perspective who is the ideal customer. The yacht captains were unanimous in that ideal customers are private and long-term.

I've always worked for private families. So you generally get to know their specific needs. Now they bring guests here and there. I've always had the same [clients], for the most part... at least a few of the people are the same people all the time.

I work for a private individual, we don't charter, so the issue of a lot of people requiring different things hasn't come up.

KEY SERVICES AND AMENITIES EXPECTED FROM YACHT DOCKING FACILITIES

One of the goals of Sitka is to make the O'Connell Bridge Float facility the best in Southeast Alaska, if not all of Alaska. To make it so, each of the participants were asked to provide input on what they considered to be essential services and amenities a premium yacht dock would offer. They were also asked to give advice on the accommodations, services and benefits Sitka would be expected to provide, and be responsible for (or in control of), if it wants to offer the "best port and harbor in Alaska" experience. All participants were in agreement on what many of these should be, as noted below.

Security and Privacy are Essential

All of the captains expressed concerns over security of the dock and the vessels moored there. With the dock being downtown it is easily accessible, so people are always wandering around the yachts. Any top-notch facility has security; the O'Connell Bridge dock should as well. Everyone would like access to be more restricted, especially at night. Some of the features discussed include having a gated entry and exit, with key card access.

The O'Connell dock is very accessible to people in general. The larger yachts, some security is a good idea. To have a access card key system or something for the access to that dock.

As a captain, you're just looking for a safe secure place to berth the owner's assets. So wake free, something secure that you don't have to worry about uninvited people on the boat or too close in proximity.

A lockable gate, at least at nighttime and stuff. Really helpful, something you have to have a gate access card, key card to get in and out at least at nighttime. I understand some of these are public places, townspeople will fight back, want to have access to the docks during the day. But at nighttime, they should know you have a locked gate.

Adequate lighting is also an essential amenity the captains felt should be included on any dock, not just for security purposes, but for safe walking on the docks and ramps of the facility.

Adequate lighting on the dock and the ramps (even though all laughed that it was summer in Alaska it does get dusk). Its not all that much of a problem because people tend to be there in the summer months. It is necessary to make sure access on and off the vessels that there's adequate lighting on the dock.

Privacy for yacht users and owners is critical to the experience, especially in a place that is so easily accessible to the public as the O'Connell Bridge facility. Privacy and security go hand-in hand so minimizing access to the general public can go a long way in keeping yacht users and owners from running into potential problems and feeling safer as they go about their business in town.

Going to dock in Alaska, security, as much privacy as possible, cause most of the facilities are public facilities in Alaska. So it is nice to have an area where we can tie up, give the crew the ability to stretch their legs ashore and give the guests the same as well. And feel they won't be singled out as guest owners out of the group.

Just one thing I kind of look for, if I had a comparison, is one more private facility for the owner's guests on the boat to have a little bit more privacy and security too. You're not looking out there trying to enjoy a drink or scenery and there's cruise ship tourists or who knows walking 10 feet off the side of the boat or aft, asking interesting questions.

The privacy aspect of it, especially if there are going to be guests aboard the boat. Just making it so that's not as accessible, try to keep the fishbowl aspect out of it as much as possible.

The crew of the yacht is an important part of the service provided. They also spend a considerable amount of time with the vessel, so the captains felt it was important to provide a safe designated parking facility for yacht and personnel and to take care of boat chores.

Having... designated parking facilities for the yacht's and for personnel.

A place to park where you can easily unload your groceries or unload guests to the boat.

Reliable power is a must

All of the participants agreed that docks should have a reliable source of power that the yachts can plug into. The amount and type of power varied, depending on the size of the vessel that would moor at the dock.

A power supply should be provided as standard. And I would think from the point of view of having a maximum of a 200-foot vessel on the dock, which would be a little bit longer than the dock itself. I think the minimum power requirements would be 200 amps, 3-phase at about 230 volts.

As far as good reliable power, that's one thing we're always looking for. Anything 480, 3-phase, maybe a connection on either end of the dock depending which way the boat is, allows more places, as far as being captains. Owners like to know that the boats have good proper shore power when tied up somewhere for a period of time.

Reliable power for sure. Then if you are using a larger vessel, if you had like a single phase, a lot of us will take like a 50 or 100-amp single-phase service, then you can actually put 2 smaller boats there in the event that you didn't have a larger boat taking that dock space.

If you could provide them power... it's usually 3-phase for them. If you can provide that, you're gonna be the best in the state, if you could provide those items. Even if it's a public slip other than a private like the O'Connell Bridge could be. If you could provide those services, so they could take their generators down and if they had to work on them, that would be huge.

Reliable Wi-Fi connectivity is essential

Yacht captains, their crew and guests often need to download something on their computer, especially after being at sea for several days without a reliable, or any, internet connection, so reliable strong Wi-Fi connectivity is essential. Some discussion ensued as to whether or not this should be something Sitka provides as part of the use of the dock, or is just knowing where to get reliable Wi-Fi access enough.

We haven't brought up yet strong reliable Wi-Fi, if someone can figure that out on the dock. Either having that or having an area in the harbor master's office, somewhere where people can bring their computers in and download stuff. An area where you can have reliable Wi-Fi.

I would agree too. You go into an RV park, and they provide Wi-Fi, that's just part of it. You can do an access code or you can do a charge on it. I've seen that in many places. Where they also give you a code – a one- time code for the day to give you access.

Everywhere I've been, that is usually a marina responsibility [reliable Wi-Fi connectivity]

There is very good Wi-Fi at the library. That is just steps away from the O'Connell facility.

Take care of the basics

When specifically asked what other services the port should provide, and what it should be responsible for, the responses boiled down to basic services, including water and garbage.

Obviously, the development of the dock, needs to have at least 2 water connections on the dock.

Yeah, for either pickup of garbage if it's a known thing when you call in that you can arrange for someone to come down, or having a dumpster facility nearby with a couple dock carts. Dock carts available for use as well.

Reliable sewer, power, clean docks, water and garbage, any kind of information that can be at time of reservation or when the dock master – whoever meets to grab the line can hand off to the boat.

The only thing I think the city is in control of or should be in control of, the basic services, our water, security, patrol of the facility. Again, I have to mention the wake because it's very well controlled west of the bridge but not too much east of the bridge. Garbage service has been adequate in the past.

I think it should have water, and it should have an access to garbage. Security, the locking gates. I know we have that at the O'Connell Bridge dock.

IDEAL EXPERIENCE FOR YACHT USERS

In addition to amenities and services provided by Sitka and its citizens, there are expectations on the part of yacht guests and owners who use facilities such as the O'Connell Bridge facility. Guests want certain experiences and it is up to the yacht captains and those who make guest arrangements to ensure it happens, with the support of Sitka when appropriate.

Anonymity Please!

Yacht users want and expect anonymity. It doesn't matter if they choose to blend in with the crowd or to have a private experience, they don't want their presence announced or known to the general public (i.e., the residents, service providers, etc.). They don't want people to know they arrived on that big yacht docked at the harbor.

I think some of the anonymity would be a little more... some of the guests have been high-profile, people recognize them. And just making sure that all port officials, everybody, knows if they see people they recognize, just not to spread the rumor around or who they may have seen, until after the vessel leaves... It definitely, it keeps us in these small towns longer if they can fly under the radar longer.

The guests... as soon as they get off the boat, they don't want to be necessarily associated with the boat. That's very important to them a lot of time, so they can just blend into the town and do like what everybody else does.

Happy Crew and Happy Owners Means Repeat Visits

Yacht crews and owners like to spend time in ports that look after their needs. This means that the more amenities a port offers the crew and vessel owners, the more likely they will repeatedly return to that port or at least make recommendations that their clients visit it. In other words, the crews and owners influence decisions about the destination based on how the port treats them.

I think the one thing we haven't touched on... is the crew aspect of the towns. A lot of times that drives the destination. Owners have boats go to certain areas, as well there is the other aspect of when you're looking to put the boat up for 3 or 4 weeks somewhere, 2 weeks somewhere. And for the crew, I've noticed a lot of towns, in different places, are going to, as far as having different gyms.

Gyms are a huge thing for yachts, to be able to work out, go somewhere. But having with different gyms in town, hey would you allow one week passes instead of doing an annual membership? Can we get, can the crew come in for three days to this one, three days to? ... Obviously they'll pay for going to it. But having those things in a packet when you come in, saying hey, here's a little discount to go do this tour. Why don't you guys do this? But working out in gyms, Pilates, yoga classes, those are huge things and it is amazing what a little half hour, hour for crews to go do stuff like that, and have a studio to go there, keeps their interest in a town.

Make Information Current and Easily Accessible

One of the biggest complaints from the yacht captains is the lack of consistent and complete local information they need so that they can give their clients the ultimate experience. They want information packaged in way that makes it easy for their clients to find the services or excursions they need or desire. For example, provide information on local services like dry cleaning or laundry services or where to access Wi-Fi; local sights such as national parks or hiking trails; and available charters or adventure tours. Where is the fishing!

One thing that could be made more available for the port aspect is to have information readily available for all the national parks, trails and all the things are readily available but the information is not readily available. So if it could have all the local trails information at the harbor master's office, that would be very useful.

I've been coming to Sitka quite often. Just getting general information, it used to be very easy to get ahold of a phone book and look things up. You don't get phone books anymore. So things like where the laundry is. Sometimes if people have to do a fast turnaround, they need help with laundry. All the services that supply trips. You got people doing adventure trips and things like that. There's no place like that where you where you can get information. There is some information provided at the harbor master's office, but if you could just put up some sort of bulletin board with information on all the various guided tours.

Often times, the captains have to make last-minute plans or changes for their clients. For example, fishing or weather conditions are always changing, so current, up-to-date information is important. Clients may have ideas of what they want to do when they depart from their home port but then change their mind when they arrive at a "destination" port like Sitka. Captains want the knowledge and flexibility to easily accommodate their client's requests. Right now, a lot of the information is gathered by walking the streets, so having some organized source of information would be helpful.

My experience has been my guests will come on for say, a week. If the fish were biting yesterday or the day before, they're going fishing tomorrow. So we're going out. So we either hire local knowledge to come with us or we charter a local boat for the experience... We usually look for references in advance, or I'll go fish where they're at in advance. Walk the dogs, see who brings back the most amount of fish, talk to guys and see how clean they keep their boats. Pick their brains a bit to see where they're biting and what the catch has been like. Get an idea if that'd be a guide I'd use for my guests.

If the city could canvass all the local people to find out how the fishing is going from week to week, that has some sort of record keeping that would be advantageous.

Even if there was a main notice to all the local fishing lodges, the boats there. That if they have a free boat available... have a board saying they have space or what not... A lot of my charters are last minute. The guests will get there, weather is crummy. Let's stay local. Let's stay a couple more nights at the dock. Can you find us a fishing boat tomorrow? A lot of time, crew they want to go fishing. So hey, if you have one or two spots, they don't need an exclusive boat, they might just want to jump on with another boat. Let the local charter guys know if they have individual availabilities or empty boats on certain days. To maybe go over to the yachts. Hey you guys, I have a boat available. Let us know. I find myself a lot of time scrambling... I have guests who say they don't want to fish, don't want to charter. But when they get there and want a charter boat the next morning, so it's a scramble to find a boat.

I would say that with the tours, not having Sitka Tours being there anymore, what I find a lot of times is... you work trying to find tours that are private, that aren't shared, everything from charter fishing boats to other things. When you call up and say I want a private vessel, really working with the tenants, knowing that the yachts a lot of times will want to either have a private car, or vessel when they do charter and not fill it, regardless if they have to pay the whole – obviously they pay for it all, but they might only send 4 people for an 8-person activity.

It might be advantageous to see if it would be possible to update fishing information. A lot of people in the Sitka area, find out exactly how the fishing is going. That would be an advantage.

When asked specifically about “concierge services” and whether or not the client is willing to pay for it, the captains indicated that they already do, in other ports. One of the participants indicated he provides some of the very services the captains were saying they wanted.

We kind of set up a whole itinerary for them. And then when they got to the different ports, say when they come into Sitka, I will have notified the harbor master, typically I try to do it a half a month or sometimes even two or three months in advance because docking is so tight, that when we know we got docking and secured, then we reserve it with the harbor master. Then once the yacht gets there, I have a whole packet of information on things involved in the community, many of them I've already sent them electronically so they know in advance what they're gonna need. Many of them have private jets that come in, then I arrange with local vendors or myself and my vans to take them over to their jet and their luggage. Tours, I arrange tours, I arrange reservations for restaurants in the evening.

The concierge service, you've got the visitor's bureau which has a lot of that information and their members pay to have them advertise them. If the City could provide a list of here's who you can see kind of thing... The cleanest, best services, they're gonna fill those spots up with those parameters.

Yes, I've paid for it in other places [in response to the question of whether or not concierge-type services would be something people are willing to pay for].

Slip reservations

All of the participants felt that slip reservations to moor the boat was an important benefit and they are willing to pay a higher price to have a guaranteed slip.

I know there's a price for reservation versus come in. That's value to have a higher price to guarantee a slip. I've paid it many a time up there to hold reservations. I think the price can bear that.

I think most of the captains want a place they can reserve in advance, so when they come in, they know they have a slip.

Being able to guarantee a slip is very important.

Wi-Fi accessibility

All of the participants agreed that Wi-Fi accessibility was important. They also agreed that while they think the port should provide reliable Wi-Fi, they felt that paying for the service was normal, and should be included in the moorage fees. Some of the captains also felt that ease of log-in should also be a consideration – they don't want multiple codes for each individual who needs Wi-Fi.

People aren't opposed to paying for Wi-Fi if it is good quality, high-speed Wi-Fi. If I can just break in for one second on the Wi-Fi. If you can bill it to the moorage, instead of having to pay in as you go.

That a lot of ship board servers push back at those pay sites. And they just have too many... We want to update some vessel information, vessel computers and different stuff. When you have to do an individual log in on every device and pay that way versus getting one access code from the marina. Just be able to access, don't want to necessarily hand out a code to every person where you could give one code. It's a daily amount, built into the moorage whatever it is. I put it on my server, then it out to the vessel service and the guest, crew access the Wi-Fi.

MAKE OR BREAK PRICE POINTS

After discussing the key expectations of everyone involved in the yachting experience, the question that arises is at what price do we offer these services, amenities and experiences, and who pays for it? The goal of the question was to determine whether or not there was a threshold that yacht service providers (the captains, crew and those who make arrangements for yacht guests) and/or their guests would deem something too expensive – what's the "pain point". What came out of the discussion was a somewhat surprising assertion that price just really didn't matter and wasn't a part of everyday conversations for this population.

I have no real input on pricing. It always comes back to what the market will bear. Many years ago I was advocating for higher prices for yachts, and that has already come about. I don't think I have anything to add on.

As far as pricing goes... it's kind of dictated by all the facilities and stuff around. If they want to go to a dock, we go. Don't remember having a conversation about price per se.

All that said, the pricing comes down to the reservation for a slip and providing that reservation and all the related costs and fees for related experiences, services and amenities. In other words, make it a bundle price.

I think for me, I would say having the reservations you're paying extra, whoever is paying ... I'm not sure where your guys' price break down is... I don't know why Juneau comes to mind. Juneau 85 cents without reservations, \$3 with reservations. Maybe that comes with a nice... when you tie up, whoever comes down to grab your lines brings a packet or bag with all the brochures and stuff. But then that's still doing your own groundwork. If there is anybody to pay for servicing, I would like to charter a fish boat and do all this... whether it gets billed to the slip moorage and then a percentage gets tacked on to that as a convenience fee – the concierge fees. Might come in, say I got 8 guests, we need 2 fish boats tomorrow mornings.

Can you arrange it? If you tack on an extra percentage to cover your costs, and then it gets billed to the moorage. All in one bill is a very nice thing. Keep the paper work down.

Appendix

SE Yacht Services

Focus Group Discussion Guide

Telephonic Session held 2/5

[**TARGET SEGMENT:** This one session is with yacht captains and individuals who make arrangements for reserved yachts use at the O'Connell Bridge Facility in Sitka Alaska. Agent Fred Reeder (YSOA) supported our efforts to reach the people with the necessary knowledge to participate. We are hoping to speak with 5-8 people and the session will last one hour telephonically.]

I. INTRODUCTION:

Today we are here to gain a better understanding regarding thoughts on how to make Sitka the best docking spot in Southeast Alaska. We will be talking today about services that matter to you specifically. We will also spend considerable time exploring your views on current moorage and other services you believe are necessary including the "rates/fees" for these services in float facilities in Alaska. It is important for the City and Borough of Sitka to hear from you on what to consider as they renovate and upgrade the O'Connell Float facility to meet the service requirements for yachts visiting Sitka, Alaska.

II. WARM-UP: Awareness of City and Borough - Port & Harbor Issues

Let's begin with the big picture. We really do not need any detail at this time, but rather to put into context the impact to the Sitka Community of the yachts at the Bridge Facility.

1. Generally, do you think the community is supportive of the Port and Harbor?
2. Does everyone know what happened and what the City and Borough is up to regarding repairs from damage of the O'Connell float facility?
3. Has anyone read, heard or seen anything regarding what services might result from these efforts. What is the word-on-the-street regarding the Port & Harbor?

[WATCH FOR: Any banter about problems in Alaska; issues related to the politics of the effort. Get them on and off the table and do not engage in discussion of off-topic issues.]

III. IN-DEPTH: Services Desired by Customers

1. Now let's move into a discussion on necessary services. Right now what is available and explain a little bit about how it happens when a client/customer. calls, specifically what are they requesting.

[WATCH FOR A DISCUSSION OF THOSE DESIRED BY GROUP MEMBERS.: CRITICAL REQUIREMENTS ARE WATER, ELECTRIC SERVICE AT 380 VOLT THREE PHASE SERVICE BECAUSE RUNNING SHIP GENERATORS ARE EXPENSIVE AND RESULT IN WEAR AND TEAR ON THEM;

WHEN ELECTRIC SERVICE IS BETTER. ALSO GARBAGE SERVICE IS NICE TO HAVE PEOPLE PICK IT UP SO THEY DON'T HAVE TO MAKE THE LONG TRIP TO THE LANDFILL. THEY ALSO LIKE TO HAVE EXCLUSIVE ACCESS SO NO ONE IS AT THE SHIP THAT IS NOT EITHER A CAPTAIN OR CLIENT/PASSENGER.]

2. Who are your ideal customers?

A. How many are out there, really?

- B. What are they looking for, exactly?
- C. Are the current rates charged about right or not what customers want to pay.
- D. Let's talk specifically about rates that accompany what services currently.

3. And now, what would take Sitka into that category of BEST PORT in Alaska?

[AS NEEDED FOR DISCUSSION: ask them to be realistic and get parameters from Bill or Fred?]

QUESTIONS FOR DISCUSSION PROBE FOR DETAILS:

- 1. What would make moorage more appealing?
- 2. Do customers understand the challenges you and the Port & Harbor have?

[PROBE THIS QUESTION: ASK CAPTAINS FOR A PREFERRED SERVICE LIST AND FEES. THEN ARE FEES MORE IMPORTANT THAN THE AVAILABILITY OF THE SERVICE. FOR EXAMPLE, PROVIDING 380 VOLT 3 PHASE ELECTRIC SERVICE IS EXPENSIVE TO PROVIDE FOR THE CITY BUT IF IT WAS AVAILABLE AT WHAT PRICE WOULD YOU SIMPLY USE YOUR SHIPS GENERATORS. THEN ASK IS EXCLUSIVITY IMPORTANT AND IF WE CAN YOU IDENTIFY SERVICES TO MEET THIS REQUIREMENT (I.E. ACCESS CARDS THAT GET ISSUED THAT ONLY WORK FOR THAT CARD AND NO ONE OTHER THAN HARBOR EMPLOYEE'S CAN ACCESS. QUESTION TO PROBE: DO THEY WANT EXCLUSIVE ACCESS TO TRANSPORTATION AND LODGING SO THEIR STAY IN SITKA IS NOT ON THE SHIP BUT ON LAND.

- 3. How about those *Super Yacht Owners* how far could the City and Borough take this in terms of accommodations, services, and benefits?
- 4. What is the word-on-the-street about missed opportunities?

USE EXAMPLES AS NEEDED: (BILL I need examples of extremes here that customers could get if they paid more; and what is realistic? For example, you mentioned in your notes exclusivity, WIFI, Harbor staff welcoming team etc.)

- 5. Let's hear some **top of mind thoughts** coming to you now about all of this?
- 6. If The City and Borough would go 1000% with this renovation what would that look like and at **what rate** to the customer?

[DISCUSSION ABOUT RATES: how thorough do you want to explore this and it is a little hard to do over the phone but we could throw out some rates?]

- 7. How much would **you be willing to charge** customers/clients? [PERHAPS A FOLLOW UP QUESTION TO THIS WOULD BE: "IF THE SERVICES WERE PROVIDED AT REASONABLE RATES WOULD YOU SIMPLY PASS THESE FEES THROUGH TO THE CLIENTS (PRIVATE YACHT OWNER OR COMPANIES THAT PROVIDE YACHT TOURING SERVICES) AND WOULD THIS HAVE ANY IMPACT ON THE YACHT BUSINESS.
- 8. And finally, if the City and Borough makes this Port and Harbor the best in Alaska. Tell me again what that looks like and how much they can charge in rates and for what services. Let's say as it compares to other places in Alaska.

IV. WRAP UP: What is realistic for the Community of Sitka

Finally, if you could give your best advice to the City and Borough about **their next move**; what would be best for the community and for the visitors to the Port and Harbor?