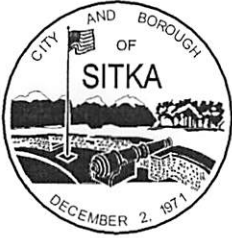


POSSIBLE MOTION

I MOVE TO approve Ordinance 2018-19 on
first reading.



City and Borough of Sitka

100 Lincoln Street • Sitka, Alaska 99835

MEMORANDUM

To: Mayor Hunter and Assembly Members
Keith Brady, Municipal Administrator

From: Bob Potrzuski, Aaron Bean

Cc: Stanley Eliason, Jay Sweeney, Melissa Haley

Date: April 17, 2018

Subject: Approval of natural resource severance tax

The City and Borough of Sitka is facing unprecedented fiscal pressures from the loss of millions of state and federal dollars, crumbling infrastructure, and declining population. Though the city has responded with cuts in staff over the last five years, and limiting of some services, it will continue to face financial challenges moving forward.

In an effort to meet these challenges, we propose a severance tax on the harvest and sale of natural resources: fish, rock, and timber.

Dillingham, Cordova, Adak, Kodiak, Aleutians East Borough, Bristol Bay Borough, the Lake and Peninsula Borough, and numerous smaller communities (\$100,000-\$1,000,000) have elected to have their communities benefit from the harvest of natural resources, generally fish, via the use of a severance tax. Kodiak, of the above, includes rock and timber in their ordinance as well.

According to staff, per percentage point of assessment, the CBS would generate approximately \$1.2 million. As presented, at 3%, this would generate an estimated \$3.6 million.

Also, as presented, 50% of all proceeds would be directed to the harbor fund, a piece, arguably the most important piece, of business infrastructure we have. Currently, the harbor fund needs tens of millions of dollars to provide this key component of Sitka's future with only moorage increases to fund them. It is generally agreed that the projected moorage increases are unsustainable. Already, our harbors are not the full, vibrant places they once were. Please see the below chart to see the possible effects of the infusion of these funds into the Harbor Department.

THERE ARE MANY VARIABLES, THESE NUMBERS ARE APPROXIMATE

Scenario 1)

1 million (flat) per year to Harbor Fund results in:

Rates of:

User Fee Increase, Permanent Moorage, FY2018 - 32	4.50%
User Fee Increase, Permanent Moorage, FY2033	4.10%
User Fee Increase, Permanent Moorage, FY2034-35	4.00%
User Fee Increase, Permanent Moorage, FY2036	4.00%
User Fee Increase, Permanent Moorage, FY2037	4.00%

Bonding of \$48,000,000 over next 20 years instead of \$58,000,000

Scenario 2)

2 million (flat) per year to Harbor Fund results in:

User Fee Increase, Permanent Moorage, FY2018 - 32	4.00%
User Fee Increase, Permanent Moorage, FY2033	3.50%
User Fee Increase, Permanent Moorage, FY2034-35	3.00%
User Fee Increase, Permanent Moorage, FY2036	2.50%
User Fee Increase, Permanent Moorage, FY2037	2.00%

Bonding decreases from \$58,000,000 to \$20,000,000

Scenario 3)

3 million (flat) per year to Harbor Fund results in:

User Fee Increase, Permanent Moorage, FY2018 - 32	2.00%
User Fee Increase, Permanent Moorage, FY2033	0.00%
User Fee Increase, Permanent Moorage, FY2034-35	0.00%
User Fee Increase, Permanent Moorage, FY2036	0.00%
User Fee Increase, Permanent Moorage, FY2037	0.00%

Assuming 3,000,000 per year begins in FY19, we would have to bond only 2,000,000 for Crescent Harbor and thereafter we would have enough working capital to fund infrastructure renovations.

If the harbors can be taken out of the equation for the CBS's future capital outlays, it allows for other measures to be taken to address those needs. If harbor rates can be kept at a reasonable increase, we could maintain our fleet and hopefully, welcome small boat owners back into the system. As you can see, use of nearly all-of-the proposed levy, \$3 million, would make our harbors the least expensive in the region for the foreseeable future.

Relief for our harbors is also a very appropriate way to use money, which originates in the harbor, with our fisherman, while supporting other needs through the general fund. Future Assemblies would not be unduly constrained by 50%, or some other percentage of these funds being earmarked for harbors.

Sustainability of the CBS of is going to be dependent on the community doing the heavy lifting of maintaining our infrastructure and providing for basic needs. This ordinance moves the community a good distance toward the goal of sustainability.

Bob Potrzuski, Assemblyman
Aaron Bean, Assemblyman