

THE CITY AND BOROUGH OF JUNEAU, ALASKA

Assembly Committee Of The Whole Work Session Minutes

February 10, 2014

I. ROLL CALL

Deputy Mayor Mary Becker called the meeting to order at 6:41 p.m. in the Assembly Chambers.

Assemblymembers Present: Mary Becker, Karen Crane, Loren Jones, Jesse Kiehl, Jerry Nankervis, Merrill Sanford, Carlton Smith, Kate Troll and Randy Wanamaker (telephonic)

Assemblymembers Absent: None.

Staff present: Kim Kiefer, City Manager; Rob Steedle, Deputy City Manager; Beth McEwen, Deputy Clerk; Kirk Duncan, Public Works Director; Dave Crabtree, Utility Manager; Hal Hart, Community Development Director; Travis Goddard, Planning Manager; Brent Fischer, Parks and Recreation Director; Rorie Watt, Engineering Director; Bob Bartholomew, Finance Director; Carl Uchytel, Port Director; Sky Stekoll, Engineering Associate; and George Schaaf, Parks and Landscape Superintendent.

II. APPROVAL OF AGENDA

Hearing no objection, the agenda was approved as presented.

III. APPROVAL OF MINUTES

a. January 13, 2014 Assembly Committee of the Whole

Hearing no objection, the minutes of the January 13, 2014 Committee of the Whole meeting were approved.

IV. AGENDA TOPICS

a. Cruise Industry Update - John Binkley presenting.

Mr. Binkley gave an update on the cruise industry locally and globally. Mr. Binkley serves as President of CLIA Alaska, which was formerly Alaska Cruise Association. Now they are affiliated with Cruise Lines International Association (CLIA). CLIA represents eleven member cruise lines which are: Celebrity Cruises, Carnival, Crystal Cruises, Disney Cruise Line, Holland America Line, Norwegian Cruise Line, Oceania Cruises, Princess Cruises, Regent Seven Seas Cruises, Royal Caribbean International, and Silversea.

He said in 2013, they had almost 1,000,000 passengers come to Alaska. 999,600 cruise passengers came in 2013 which includes passengers not only from their 11 member lines but also from the smaller cruise ship lines as well. CLIA members had 28 ships totaling 482 voyages. There are mainly two different kinds of voyages to Alaska – the roundtrip to Alaska which consists of approximately 2/3rds of the traffic. They come up through Southeast and turn around and go back – usually to Seattle. The other 1/3 of the passengers come up through Southeast, stopping at three ports on the way north and then continue on across the Gulf of Alaska to Seward or Whittier, disembark and then go to interior locations such as Denali. Another group flies in, takes the interior tour, boards the ship and travels south by way of Southeast Alaska.

This past year saw the first “Solstice Class” ship in Alaska which is one of the newer/larger ships. That was by Celebrity Cruises and is 1,041 feet in length and handles 2850 passengers and 1500 crew members. Next year a larger Princess ship will arrive, dimensionally the same length but taller, with another deck and will be able to have 3,000+ passengers.

Mr. Binkley presented 2012 visitor figures which showed a total of 1,586,600 summer visitors to Alaska broken down as 937,000 cruise passengers, 69,100 Ferry/Highway passengers, and 580,500 visitors via airlines. The impact of the visitor industry in Southeast Alaska according to a 2010 study showed 10,600 full time employees with an economic impact of just over one billion dollars.

His presentation showed the growth fluctuations within Alaska in the cruise industry. Even though Alaska had a decline in 2010/2011, the global cruise industry continued to grow around the world. The world cruise market increased at approximately 7.6% per year. Alaska’ share of the market declined approximately 30% from the world’s market share due to other destinations aggressively marketing their destination ports. He said measures by the Governor, Lt. Governor and the Juneau legislative delegation to roll back taxes had reversed that decline.

He went on to give an overview of the global cruise markets. In 2013 there were 393 ships deployed around the world and hauled approximately 21 million passengers. The leading cruise destinations include the Caribbean (37%), Mediterranean (19%), N. Europe (11.1%), Australia/New Zealand (5.9%) and Alaska (4.5%). In comparing the global market and the Alaskan share of the global market, his graph showed a 30% decline of market share for Alaska from 2006-2012. The future growth of the market globally is huge in that CLIA lines will introduce 24 new ships in 2014 and 2015 which represents a total capital investment of approximately \$8 billion. The increased deployments in 2014 include the Caribbean (+12%), Northern Europe (+5.2%), Asia (+31.6%), and Australasia (+22%).

They are cautiously optimistic about Alaska’s market and challenges include the fact that it is a high cost destination. The taxes and regulatory atmosphere has changed. Alaska has increased its marketing efforts and continued to build land based improvements.

Some of the challenges Alaska faces is the expense to move cruise ships in and out of Alaska and operate within Alaska. The main market for Alaska cruises is the N. American market and that market is slow in growing. The Asian market is a huge potential source market; it is estimated that by 2020, 7 million cruises will be coming out of Asia. The demand is outpacing the construction. There is more demand for the building of cruise ships than the schedule can provide. If there are not enough new ships out there to meet the demand, they will take existing ships from existing markets and move them to new destinations.

Discussion took place regarding the challenges for Alaskan cruises and the main obstacle is still the price of an Alaskan cruise vs. the lower costs for cruising to other destinations. Mr. Binkley said that destinations work with the cruise industry to partner on how they can best market and improve the experiences and profitability of the industry. CLIA Global announced the creation of a Global Ports Committee and putting staff and efforts in coordinating on a global level the construction of new ports around the world and how it fits in with the plans for the industry. They are looking for better collaboration between industry and local governments. They appreciate the efforts of the Mayor and the administration in sitting down together to discuss the use of Marine Passenger Fees to discuss the spending of those funds to address the needs of the industry in the future.

Discussion also took place regarding the impact of the projects Juneau is currently undergoing such as the 16b Dock replacement, bus parking reconfiguration, the work at Auke Bay to

alleviate the congestion and whether or not that makes Juneau a competitive market. Mr. Binkley said those are exactly the types of things destinations need to do and the things that the cruise industry is looking for. However, they come at a steep price; here in Juneau the 16b facility construction is approximately \$54 million that is coming from the passengers. It is great to have those facilities but paying a fee in for those becomes an inhibitor for people to come because that makes the cost go up. He said the combined total of the A.J. Dock, the Franklin Dock, the McGraw Dock (Sitka), the Whittier Dock did not come close to the \$54 million dollar cost for the two docks in Juneau. Those costs are exorbitantly high compared to what the industry was used to in other areas even within the state of Alaska. Most of those facilities were financed by private industry or by public industries that don't necessarily tax the cruise lines on those but by the increased economic activity that comes as a result of the cruise passengers.

Additional discussion took place regarding the 2014 forecasts for cruise passengers and their spending habits and the types of passengers (discount or high spenders). Mr. Binkley said it is difficult to try to predict and that it depends on the national economy. They also discussed the longer itineraries vs. the shorter itineraries and if there are any shifts anticipated to longer itineraries. Mr. Binkley explained that the longer itineraries are a small portion of the market, less than 10%. He said the standard is a seven day cruise with primarily three ports but sometimes four ports.

Additional discussion took place regarding the main market for Alaska cruises is N. America. They spoke about the various factors that affect the prices which include air travel, fuel, head tax, and ways to possibly be able to reduce those costs in the future. Mr. Binkley said anything that would help reduce the costs is a help not only for the industry but for the community as well. Such things as plugging in to shore power and having fuel efficiencies available make for a win/win situation.

Ms. Becker thanked Mr. Binkley for providing his update to the Assembly.

b. State of Alaska Dept. of Transportation (DOT)/Public Facilities Report on 10th & Egan Project – Al Clough, presenting.

Al Clough, Regional Director for Southeast DOT presented information on the project to resurface Egan Drive from Main Street to 10th Street. The project is resurfacing Egan Drive and improving some pedestrian and bicycle facilities along that corridor. The retaining wall under Merchant's Wharf needed some improvements as well.

Mr. Clough said the project was redesigned based upon public comments. He showed how the travel lanes will be reduced from the current 12.5' travel lanes to 11' travel lanes to allow for a buffered bike lane (2' buffer and 4.5' bike lane) and the 6' sidewalk on the land side and the 8' sidewalk on the sea side. He gave comparisons to the 11' travel lanes currently in place from the Red Dog Saloon area south to Thane and on the Old Glacier Hwy. by Twin Lakes. He said the middle section would consist of a 16' raised media/turn lane which is slightly narrower than is currently there. Between Whittier and Willoughby, it will have to two full travel lanes outbound and one through lane inbound and one lane that will be a left turn only lane for Willoughby. If traveling through to downtown, and earlier right merge will be required.

The Willoughby St. to Main Street reconfiguration would be for one thru lane each inbound and outbound with a middle left turn lane but both sides would add bike lanes and significantly wider sidewalks, especially in front of Merchant's Wharf. He showed a photo of the current concrete block retaining wall under Merchant's Wharf Building. Work to strengthen the retaining wall under Merchants Wharf will be done from underneath rather than opening up the street.

The environmental document in the design phase should be done this spring. They anticipate coming to the Planning Commission sometime this summer. They are scheduled to advertise the project late fall with construction to begin sometime in 2015. Because they are not totally done with the planning portion of it, he can't say how long they anticipate the construction will take. He understands that CBJ is interested in a utility project that would be done concurrently with this project. He said this is a multi-year project with the most disruptive parts of the construction schedule to be before and after the summer cruise season.

This section of Egan Drive is eligible for National Highway System and has to compete with other projects. The project as redesigned meets the goals of providing much improved pedestrian and non-motorized travel and still preserves and improves vehicle travel through the area.

Discussion took place about the documents presented to the Assembly in November 2013, which had the sidewalk and bike track off the road. Mr. Clough said the elevated cycle track used up quite a bit of right-of-way. He explained that by keeping a traditional marked bike path along the roadway, it is consistent with what is found in other areas of town as well as provides additional vehicle space if emergency vehicles needed to get through and around other vehicles in the roadway. Mr. Jones expressed his concerns that they are narrowing the traffic lane widths and by not having the elevated bike path, it is putting the bike traffic very close to the large busses and trucks that will be traveling directly next to the bike lane.

Ms. Crane asked where they plan on staging the equipment for the project and downtown parking. Mr. Clough said those decisions are left up to the contractor to determine as the process develops.

Mr. Wanamaker asked if there was some reason the medians were being kept or if there was some way to either narrow them down or eliminate them so there could be more space for bicycles. Mr. Clough said they had been narrowed down and were used up by the left turn lanes.

Mayor Sanford asked if the Engineering and the Community Development Departments were involved with this project. Mr. Clough said that they have been made aware of interest by CBJ to combine utility work to interface with this project and as they get further along in the design and scheduling process, they will be working together. He said they would anticipate that CBJ would provide the funding and DOT would work with the design and administer the utility portion of this project. He said they have begun a series of informal project meetings which include CBJ Engineering and the Planning Group on an ad hoc basis as well as going through the formal Planning Commission process.

Mr. Charles Tripp of DOTPF came forward and continued a question and answer session with the Assembly.

c. Utility Rate Study – Kirk Duncan and Bill Wilks, presenting.

Public Works Director Kirk Duncan introduced Bill Wilks FCS Group Senior Project Manager. Mr. Duncan previously spoke about the need for \$73 million to rehabilitate water and wastewater facilities. This meeting focuses on how the rates will be structured. CBJ contracted with FCS to provide a "Cost of Service Study" and Mr. Wilks would present that report. Mr. Duncan said that Scott Willis and Jeff Larson from the Utility Advisory Board were present at the meeting as well.

Mr. Wilks gave a PowerPoint presentation with an overview of the rate study process, current rates, and next steps.

Mr. Wilks said the Revenue Requirement Cost Study answered the question “Is the utility operating at a surplus or deficiency and if it is, what is the percent change that is necessary to the rates to achieve the revenue requirement?” The Revenue Requirement Cost Study looks at the utility at a macro level. What they found when they conducted that Revenue Requirement Cost Study was that both CBJ utilities are operating at a deficiency.

The Cost of Service Study focuses on the question “Do existing rates by class of service cover the cost of that service?” He said as policy makers they will want to know if some services are subsidizing other services. The Cost of Service Study looks at the micro level and if specific services are self-sufficient or subsidizing other services or being subsidized in some other method.

He said the Rate Design Study is different from the previous two studies. It is where Revenue Requirement and Cost of Service are specifically mathematically driven by accountants but then the Assembly inserts the public policy involvement into the equation. They will be coming back later to present the Rate Design Study to the Assembly COW and following that, the Assembly will need to make some policy decisions on how it wishes to proceed.

Assemblymembers asked a number of questions pertaining to the proposed water and sewer sample customer bills and the impacts on both the residential and commercial proposed billings and the differences being shown between the proposed metered vs. flat rates.

Mr. Wilks took the baseline water cost of service and analyzed it and found that it was placing some significant impacts on some of the large commercial customers. He suggested keeping the “Residential Flat Rate” as it is since it is working. He said the Mobile Home Parks would be assigned to the “Residential Metered” rate and the “Commercial Flat” rate also works. He then suggests that they designate the brewery as a “Commercial Metered” customer and that the “Large Commercial: Seasonal” would include the cruise ships and fish processors. Under the proposed water cost of service, they suggest removing from this study, the brewery, the seasonal customers and the cruise ships in order to make them special contracts. The rates in this study would not apply to those customers. Instead, negotiated contracts could recover their specific costs.

When Mr. Jones asked for clarification on who was charged Commercial Flat vs. Commercial Metered, Mr. Duncan explained that all commercial entities were metered with the exception of buildings under construction or entities that were estimated to use less than 4,000 gallons/month. There are 24 Commercial Flat entities. The Airport is under an agreement that was developed in 2006 and that would be handled separately. They are currently being billed at the Large Commercial Rate and it is anticipated that they will be switched to Commercial Metered in the future.

Assemblymembers discussed the choice of the low, medium, or high use figures in developing the Rate Design Study. Members wanted information that shows what is needed for maintenance and operations to stay current and the scheduling of the capital projects. Mr. Duncan said he would resend the list of all those projects that make up the \$22 million in water projects and the \$51 million in wastewater. Mr. Duncan said if they cut those numbers in half and go to baseline, we would fall further behind. He had given the Assembly what they consider to be the most responsible way to go. They are talking about replacing 25% of our infrastructure over the next 10 years.

Mr. Kiehl said that there may be different finance options other than rate increases. Mr. Duncan said the Revenue Model in December used a scenario for a total of \$73 million in improvements

with \$22 million from sales tax, \$8 million from passenger fees, and the remainder coming from the rate increases.

Mayor Sanford asked when they will be seeing all the options. Mr. Wilks explained that this Cost of Service model showed the baseline, low, medium, and high options. They hoped the Assembly would give direction at this meeting on how to proceed with the revenue requirements. Mr. Wilks explained that depending on policy decisions by the Assembly, any number of scenarios could be calculated and brought forth.

Mr. Duncan said over time there was a lack of consistent increases and no fiscal policy to fund depreciation. The model presented funds depreciation, inflation, and operations and maintenance and provides the needed money for capital improvements. It was a reasonable and responsible plan, although unpleasant. Mr. Wilks also explained that during the last rate study, the Assembly adopted an across-the-board increase but didn't go forward with a cost of service adjustment. If the Assembly goes with a cost of service adjustment, that would be corrected.

Mr. Duncan explained that this proposal replaced 25% of a 40-year system, and would be needed every ten years. Not funding depreciation, puts the system further behind. Additional discussion took place regarding other possible funding sources. Mr. Duncan explained that they would look for funding in every location including DEC grants. This document would be reviewed by the Assembly every year to assess if targets were met and any adjustments needed.

Mr. Jones said he was concerned if they adopt the top rate increase than it would be a tough sell to go to the legislature to ask for additional funding assistance, or to do an LID.

Mr. Wilks said the methodology is the same for the sewer as was used for the water rates. They have been given the Revenue Requirements and the Cost of Service scenarios and it is now up to the Assembly to finalize the Revenue Requirement and then finalize the Cost of Service on the preferred scenario and then they can take it to the next step. That is where they get out of math and taking public policy direction, get into rate design.

Additional discussion took place regarding next steps and the timing of what needs to be done. Chair Becker asked that the projects list that was sent in December be resent to them. They also discussed sewer usage vs. the water usage since sewer isn't metered. Mr. Duncan said that their numbers were based on the assumption of what goes in, is equivalent to what is coming out. He also explained that we have twice as much invested in infrastructure for wastewater as we do for the water system.

Ms. Crane said she needed more education on this issue and hoped they would have a number of meetings to discuss the policy questions involved in this process before it went to the Finance Committee. Chair Becker asked the Manager if she could outline policy questions for the Assembly.

d. Whale/Bridge Park – Rorie Watt, presenting.

Engineering Director Rorie Watt presented updated information on the Waterfront Plan passed by the Assembly, the resolution endorsing the bridge site as the location for the Whale, the adopted plan by the Assembly allocating land between Docks and Harbors, Parks, the Whale, the Marine Exchange Building. He was looking for approval to pursue permitting and to return with additional information as it unfolded.

He said some geothermal exploration and permitting work was done to work through the permitting issues. Waterfront project permitting could take a long time and was complicated.

He explained a map which showed an "island" fill for the whale statue favored by biologist, which creates habitat.

He anticipates be an 8-10 months permitting process with the Corps of Engineers. The full project is an expensive concept and will take quite a few years of capital funding to implement. The plan can be phased in. The whale sculpture could go, the Marine Exchange Center could go, and they could build the park in phases. They had already taken some small steps by demolishing the city shop. The seawalk could be funded at a later date.

Mr. Watt said the draft CIP proposes capital funding for some local sales tax for the park site. There may be some things that passenger fees could support. The seawalk and the walkways and bus staging that have a strong link to pedestrian and bus transportation and the safety and efficiency of commerce. The whale pool and fountain works have to come from either the whale committee or the Assembly.

Mayor Sanford said the key issue is to find out when the whale is expected to come to Juneau. Mr. Watt said the whale committee is optimistic and pushing hard to try to get more funds. They hope to get the whale here this summer but he doesn't know if they will be able to pull that off. Even if they are successful, it will take a while to make a home for it here. If the fill permit is going to take 6-10 months and then whatever capital monies they get on the first of the fiscal year, we will not be July 1 either.

Mayor Sanford said Paul Voelkers and Reed Stoops met with him about a proposal that they are working on for the sub-port Mental Health Property and indicated that the whale could go there or adjacent to it on city tidelands that could be filled and that development could be harmonious with redevelopment of the sub-port. Ms. Kiefer said she had a meeting scheduled to go over their proposal and would forward any additional information from that meeting to the Assemblymembers. Mayor Sanford said they have a conceptual design of the sub-port area and harbor by Gold Creek. Mr. Watt said he thinks the whale committee wants to go where the whale will be and is successful. They would like for us to continue permitting on this but they don't object to the other idea being worked on. Mr. Kiehl said two sets of Corps permits for one project seems like an unnecessary expense so he was trying to determine what direction they would be giving to Mr. Watt during this meeting.

Additional discussion took place on whether they wanted to give direction to proceed forward with the Corps permits on the Bridge Park area as presented by Mr. Watt or to wait and receive additional information about this new proposal from Mr. Voelkers and Mr. Stoops. Mr. Wanamaker encouraged that they wait to decide until after they receive the additional information on this new proposal.

Mr. Watt said that under any scenario, they would need a Corps of Engineers permit for the seawalk. He said that if the whale didn't go in the proposed location, the fill there would not be the same, it would be a slightly smaller permit without the whale. He said that if they are doing a Corps permit application, they need to identify the maximum extent of what they might do and if things change, they could always scale that back.

Ms. Troll said this isn't a question of whether the city is going to fund and build the whale itself, rather, it is a question of are we going to build our waterfront plan and seawalk in a way that allows us to make modifications to be flexible as new things develop.

MOTION by Troll, to authorize Mr. Watt to begin the process of the Corps of Engineers permit.

Mr. Wanamaker objected as he felt that the Assembly should get copies of all the correspondence that was previously submitted before it makes any decisions.

Roll call:

Aye: Crane, Jones, Kiehl, Nankervis, Smith, Troll, Sanford, Becker

Nay: Wanamaker

Motion passed 8 ayes, 1 nay.

Mayor Sanford asked staff to look at this other proposal and work with the other group.

Ms. Becker asked for information on the location of the Marine Exchange Building Mr. Jones said that at the last Docks & Harbors meeting the Marine Exchange Building representatives reported that they were pushing ahead as they have some other sources of revenue and they wanted to sit down with the Port Director and City Manager to discuss leases for Docks & Harbors Office space leases as part of their funding plan. He said if someone else has a different proposal for where the Marine Exchange Building is located, hopefully they are all talking with one another.

e. Lemon Creek Access presentation

Mr. Watt said this information was presented at the Public Works and Facilities Committee meeting on February 6.

Chair Becker asked the City Manager to add this topic to the agenda for a future COW meeting.

V. STAFF REPORTS – None.

VI. COMMITTEE MEMBER / LIAISON COMMENTS AND QUESTIONS

Ms. Crane noted that there is a Special Assembly Meeting and Assembly Finance Committee meeting scheduled for Wednesday, February 12 and the agendas/packets were distributed at this meeting.

Mr. Nankervis said the Planning Commission would be meeting on February 11 and the Airport Board would be meeting on February 12.

Mr. Wanamaker asked the City Manager to contact him the next morning before he delivered the letters to the TSA the next day.

VII. ADJOURNMENT - 9:35 p.m.

Submitted by Beth McEwen, Deputy Clerk