DOCKS & HARBORS
FINANCE SUB-COMMITTEE
MEETING

Tuesday, December 7th, 2021
Via Zoom Meeting
https://bit.ly/2YOHMts
Meeting ID: 841 7470 0411
Passcode: 387872
Call in: 253 215 8782

I. Call to Order – December 7th, 2021 at 5:00pm

II. Roll Call (Lacey Derr, James Becker, David Larkin, Matthew Leither, Mark Ridgway, Don Etheridge and Bob Wostmann)

III. Approval of Agenda

IV. Public Participation on Non-Agenda Items (not to exceed five minutes per person, or twenty minutes total time)

V. Approval of Tuesday November 23rd, 2021 Finance Sub-Committee Meetings Minutes.

VI. Items for Information/Discussion

1. Harbors Enterprise Funding Options for UAS Property Purchase
   Presentation by CBJ Finance Director

   Committee Discussion/Public Comment

2. Rational Basis for CPI Adjustment
   Presentation by Sub-Committee Chair

   Committee Discussion/Public Comment

3. CY22 – Docks Enterprise Personnel Requirements
   Presentation by Port Operations Supervisor Scott Hinton

   Committee Discussion/Public Comment

VII. Next Meeting – December 22nd, 2021

VIII. Adjournment

DOCKS & HARBORS
FINANCE SUB-COMMITTEE
MEETING MINUTES

November 23rd, 2021
Via Zoom Meeting

I. Call to Order – Mr. Wostmann called the meeting to order at 5:00 p.m. on November 23rd, 2021.

II. Roll Call – The following members were in the Port Director's Conference Room or on Zoom – Lacey Derr, David Larkin (joined meeting at 5:14 p.m.), Matthew Leither, Don Etheridge and Bob Wostmann.

Absent: James Becker and Mark Ridgway

Also Present: Carl Uchytil – Port Director, Matthew Creswell – Harbormaster, Teena Larson – Administrative Officer

III. Approval of Agenda

MOTION By MR. ETHERIDGE: TO APPROVE THE AGENDA AS PRESENTED AND ASK UNANIMOUS CONSENT.

Motion passes with no objection.

IV. Public Participation on Non-Agenda Items - None

V. Approval of Tuesday, November 9th, 2021 Finance Sub-Committee Meeting Minutes.

Hearing no objection, the November 9th, 2021 Meeting Minutes were approved as presented.

VI. Items for Information/Discussion

1. Docks & Harbors Fee Review (Prioritization & CPI)

   Mr. Wostmann asked everyone to see pages 12-13 in the agenda packet. He asked if everyone was happy with the Yes/No responses for the "Requesting CPI Increase column" on the Rate Overview spreadsheet.

   Ms. Derr said she had a chance to look this over and it looked good.

Mr. Wostmann said he thought it looked good as well and matches the notes he took from the last Finance Sub-Committee meeting.

Mr. Wostmann asked if we would be in a holding pattern if we decided to go forward with rate increases, waiting on the Assembly to approve our decision. He commented he would like to send this document to the company selected to do the rate study as our thoughts on where rates should be at.

Mr. Etheridge said the Assembly approved the ordinance but sent the UAS Property back to the Assembly Finance Committee. He said he knows there are Board members that do not like the idea of charging the full CPI increase. Mr. Etheridge wants to look into an interim increase until we can get the rate study completed.

Ms. Derr said she was at the Assembly meeting on November 22, 2021. Her opinion was the recent support from the Assembly has kind of vanished with the $20 million RAISE Grant loss. There were hopes dock electrification was going to be moving forward. The money for the Juneau Fisheries Terminal was also supposed to be coming from that grant and since we didn't get those funds the Assembly wants to keep their contribution to dock electrification. The majority of the Assembly did support the purchasing of the UAS Property.

Mr. Wostmann said maybe we should phase-in the increases instead of increasing them all at once. Maybe a percentage increase every year, something like 10% of the needed increase. Can we cap it at 5% every year, and raise it another 5% each year until the CPI increase is met?

Mr. Etheridge agreed with breaking up the increases over time. He feels we will receive better support from the community and Assembly if we decide to do that.

Mr. Wostmann said to go slow is especially important until we can complete the rate study. He thinks a 5% increase each year until the CPI increase is met is the right thing to do.

Mr. David Larkin joined the meeting at 5:14 p.m.

Mr. Larkin said his only concern with raising rates before the rate study is we need to only raise what we are sure the consultant will advise us to raise and not go too far. The rate study could go either way. We expect they will tell us an increase is needed, but there is no guarantee of that.

Mr. Leither said he thinks it would be valuable to create a list of things we are expecting to need an increase in the rate study. If the study comes back and a few rates are needed to come down no one would complain about that. Lowering rates back down per the rate study would offer us credibility for trying to get this right.

Mr. Wostmann said he thinks the rate study should focus on rates that generate more than $100,000 per year. That limits the total number of rates we are looking at. If we find that a rate is not justified and an increase was not needed we can lower it back down. He also thinks a CPI needs to be added throughout the years, maybe on a schedule of every three to five years, depending how the Board feels. If the CPI goes down, our rates should reflect that. We are not saying only apply the CPI if it goes up, constituents might appreciate the process more in that case. We could apply the CPI to every rate, even if it might go down.

Mr. Etheridge said he is not worried about the rates going down, we are underfunded as it is. If we had a full staff last year and did the work on our schedule we would be in the hole. We have so much backlog of things we just cannot get everything done due to lack of funds. He wants the CPI's added and some income coming in so we are able to get the staff back. We need to be able to afford putting lights in, power washing docks, doing the things that are needed. Right now we are behind because we just do not have the funds.

Mr. Wostmann said the rate study committee picked the two best proposals and reached out to them to hold orals. A decision will be made after that. It pushes the study out another month or so. He asked if there is a lengthy process for changing a rate will they go into effect before 2023? Is there any way to get an increase through by January 2022?

Mr. Uchytil said anything is possible. We need to canvas with the Assembly and find out how they feel. (Mr. Uchytil was having technical difficulties)

Mr. Creswell said he thinks Mr. Uchytil was trying to say we need to take the temperature of the Assembly and see how they will respond to multiple rate increases all at once. It might be hard for the Assembly to hear multiple rate changes, especially if we are talking about increasing yearly to reach the CPI. A fear is having the Assembly hear about Docks & Harbor rates every meeting.

Mr. Wostmann said he understands that point, but also agrees with Mr. Etheridge about being underfunded for what is needed to continue to manage this enterprise. He encouraged the Board members to speak to the Assembly, and make sure we are being heard about not having the funds to do what is expected of us. Mr. Wostmann also suggested sitting down with the Assembly Finance Committee and maybe even doing a joint session. He said he is open to suggestions on what the best approach is. Mr. Wostmann said it is not about sitting down with this chart and discussing each rate to be increased with the Assembly. He wants the CPI increase to be a single action. He also said it is important to get the increase done before July 1st, 2022.

Mr. Leither asked if from a political standpoint asking the Assembly for money and also increasing rates shows responsibility. We do not want the Assembly to think

they are just carrying us. Mr. Leither also stated the CPI could be different very soon, we are in strange times with this recent inflation. He was reading that the CPI could be as high as 6% next year. He is concerned about sticker shock if the CPI increases from the previous year, and then next year's increase could be too much. He thinks there needs to be a cap on the rate so it can increase without coming back to the Board for approval.

Mr. Wostmann said he has heard and read the same reporting about inflation and large CPI increase in the future. He thinks there should be a cap of 5% increase per year regardless of what the CPI rate is.

Mr. Larkin said he has pulled up the Alaskan Urban CPI and Mr. Leither is correct. It is going straight up with almost a 6% increase, although there was a huge dip in 2020. It is up 1.2% over the last couple of months, but right now it looks like "all items" are up just a touch over 6%. He thinks we should do a permanent cap at 5%, and apply the CPI from now going forward.

Ms. Derr suggested taking the CPI increase to the Assembly, with a cap of 5%. Regulation changes do cost money, with attorney fees and staff time. Going back and forth with rate increases could end up costing us some money. She also suggested only picking one or two rates that need to be adjusted now and move that forward with the CPI. She feels increasing rates will help us moving forward as we ask the Assembly for all this money. We need to show them we are hurting financially and do need help.

Mr. Wostmann asked Ms. Derr to clarify if she wants the CPI adjustment for all the selected rates, and increase some even more?

Ms. Derr said yes, make the CPI adjustment to the shown rates and put forth a few rate increases that we are confident are too low. Applying the CPI is a minimum moving forward.

Mr. Wostmann said he is concerned, one of the reasons for the rate study in the first place was as a Board we are not very knowledgeable about what rates should be. That is one reason a lot of these rates have not been adjusted in more than 15 years. Is there a rate we can select that we know really needs to be increased, like we know with the lightering fee.

Mr. Etheridge agrees with Mr. Wostmann and is nervous about throwing extra increases in on top of the CPI. He would like to speak with the Mayor and see what she thinks about plans for the lightering ordinance that is already over there and make sure they will support it. The Assembly might want to go another direction. He has heard if increases stay below double digits, it is likely to be approved by the Assembly. He agrees with the 5% increase at this time.

Mr. Wostmann said the Board needs to collectively and individually speak with the Assembly and see where the threshold is on increases. He asked the Board if anyone has any rates they feel need an increase over the 5% to meet CPI.

Mr. Leither said he was in favor of only increasing with the CPI and feels we need more and correct data to increase any further.

Mr. Larkin said he is concerned because we are looking to get more income now, as is needed. Raising a rate for the cruise industry will not help us until they return next year. If we raise rates on our local harbor patrons and fishing vessels they will feel it is unfair. The best thing to do is raise everything across the board and make it fair for everyone and we will see immediate income generated.

Mr. Uchytil said he would like to add that our current moorage rates are already tied to CPI. Almost two thirds of our income is from moorage. We will see an increase come July 2022.

Mr. Wostmann said he wants to be fair and let everyone see the same increase from CPI, not just dockage charges. He said the earliest we could expect any rate increase is July 1st, 2022, the beginning of next fiscal year.

Mr. Wostmann confirmed a consensus from the Board, making sure CPI increase for the listed rates, with a cap of 5% was agreed upon. He called for the Board members to advocate for this increase with the Assembly.

Mr. Etheridge said there is also the dock electrification we should speak to them about.

Mr. Creswell said he has a webinar tomorrow going over dock electrification and if Mr. Uchytil does not have something written up he will do so and send it to the Board.

Mr. Wostmann asked Mr. Creswell to send it to the Board as a Whole, not just the Finance Sub-Committee.

Public Comment: None

2. City & Borough of Juneau – 2023/24 Budget Cycle Process

Mr. Uchytil asked the Board to review the document on pages 14-15 of the agenda packet. He wants the Board to see the upcoming budget process for FY2023/FY2024. We get a lot of information in early January, and the process requires a lot of approval by the Board. We need to speak about how we can leverage

the work. Do we want the Finance Sub-Committee to do it, or the Operations/Planning Committee to take the lead?

Board Questions:

Mr. Wostmann said looking at these two pages there are a lot of steps to get the budget process going.

Mr. Etheridge asked if the Sub-Committee was comfortable just taking this to the Operations/Planning Committee. He wasn't sure it should come through here first.

Mr. Wostmann said in the interest of time, he would prefer to get this to the Operations/Planning Committee.

Ms. Larson said December 9th, 2021 is when the Finance Department starts the budget training. This is when she will start receiving the documents needed for staffing updates and stuff like that.

Mr. Wostmann said the Finance Sub-Committee's next meeting is on December 7th, 2021 and we could review the staff's write-up.

Mr. Etheridge said we can take a quick look at it on December 7th, 2021, but thinks it should go through the Operations/Planning Committee. We can gather any opinions or concerns and save them for the Operations/Planning Committee.

Public Comments: None

VII. Next Meeting – December 7th, 2021

VIII. Adjournment – The meeting adjourned at 5:55 p.m.

Presented by: The Manager
Introduced: November 22, 2021
Drafted by: Finance

ORDINANCE OF THE CITY AND BOROUGH OF JUNEAU, ALASKA

Serial No. 2021-08(b)(am)(P)

An Ordinance Appropriating up to $2,880,000 to the Manager for the Purchase of 2.8 Acres from the University of Alaska Southeast for the Juneau Fisheries Terminal; Funding Provided by General Funds.

BE IT ENACTED BY THE ASSEMBLY OF THE CITY AND BOROUGH OF JUNEAU, ALASKA:

Section 1. Classification. This ordinance is a noncode ordinance.

Section 2. Appropriation. There is appropriated to the Manager the sum of $2,000,000 for the purchase of 2.8 acres from the University of Alaska Southeast for the Juneau Fisheries Terminal.

Section 3. Source of Funds

General Funds	$2,000,000

Section 4. Effective Date. This ordinance shall become effective upon adoption.

Adopted this _____ day of _____, 2021.

_____
Beth A. Weldon, Mayor

Attest:

_____
Elizabeth J. McEwen, Municipal Clerk

Ordinance 2021-08(b)(am)(P)
Manager's Report

An Ordinance Appropriating up to $2,880,000 to the Manager for the Purchase of 2.8 Acres from the University of Alaska Southeast for the Juneau Fisheries Terminal; Funding Provided by General Funds.

This ordinance would appropriate partial funding for the purchase of approximately 35,000 square feet of uplands and two acres of tidelands from the University of Alaska Southeast (UAS). Docks and Harbors is currently leasing this property from UAS to support commercial fisheries and commercial boat repair activity. Continuation of the lease after expiration in May 2022 will result in a significant increase in leasing costs to the Docks and Harbors enterprise, which cannot be recovered through existing subleases. Investment in the purchase of this property will reduce ongoing operating costs and alleviate pressure on Docks and Harbors user fees.

The total cost of the property is $2,880,000, of which $2,000,000 will be funded with general funds and appropriated at this time. The remaining $880,000 will be funded by the Harbors Fund and appropriated once an available fund source has been determined.

The Committee of the Whole reviewed this request at the November 1, 2021 meeting. The Assembly Finance Committee reviewed this request at the December 1, 2021 meeting.

The Manager recommends the Assembly adopt this ordinance.

CBJ Docks & Harbors - Rate Setting Policy

Introduction

The Enterprise Funds are operated and financed in a manner similar to private business. The intent of the governing body is to provide goods and services to the general public on a continuing basis and be financed or recovered primarily through user charges. The acquisition and improvement of the facilities have been financed from existing cash resources, issuance of revenue and general obligation bonds, and state and federal grant funds.

Harbors Enterprise – To account for operations, maintenance and capital improvement to the four City-owned boat harbors and numerous launch ramps.
Dock Enterprise – To account for operations, maintenance and capital improvements of the city-owned facilities, which are heavily used by over 500 cruise ships during the summer months.

Background

Over the last few decades, the D&H board has set and adjusted rates on an individual basis as the need arose for additional revenue or where significant changes in the quality of facilities or services suggested that a rate revision would be justified. As a result, some rates have not changed since 2005 while other have been adjusted multiple times as recently as this year. Starting in 2005, the board added a CPI adjustment to some rates and left some untouched.

While generally these rate adjustments were discussed in multiple public meetings, distributed via various media channels, and often presented at public comment opportunities, the impression remains with too many users of D&H facilities that the rate setting process is opaque and not justified by the underlying cost and services.

It is the intent of the CBJ Docks & Harbors Board to establish a rate setting policy which meets the following criteria:

1. It must be fair and reasonable
2. It must be consistent
3. It must be supported by data and an explanation of how the data justifies the rate
4. It must be sufficient to support the operations of docks and harbors

5. It must replace capital investments
6. It must build reserves for contingencies and future growth
7. Where currently significant disparity exists between the cost allocation to user groups these need to be adjust in a fair and appropriate manner

Approach

Components

In general, there are several components which must be considered when setting a rate:

1. Recovery of operational costs
2. Recovery of capital investment
3. Build a reserve for contingencies and to build new capital for future growth
4. Equity adjustment
5. Sticker shock

Rate Adjustment

After a rate has been set there should be consistency and predictability going forward. The proposed policy would be to apply the CPI adjustment annually on all rates and to set a review schedule for each rate based on issues such as the changes in the underlying cost structure as well as user demand and changes in the use of facilities or services. The underlying rate should be reviewed at least every five years and in order to provide stability for the user community not more often than every three years. The board will always have the discretion to deal with exceptional circumstances such as the 2020 COVID impact on cruise ship revenues.

Discussion

Rates must be fair and reasonable

Fair and reasonable is primarily a subjective issue of perception. However, by implementing a defined and consistent approach and striving to allocate an equitable share of the cost to every user the D&H board strives to be fair to all users.

Rates must be consistent

By establishing this rate setting policy we will have a consistent approach to every rate and rate change. This will give commercial users the ability to plan for future years. Normally CPI changes will be applied starting April 1st and base rate changes either January 1st or July 1st as determined by the Board. Other starting dates may be established by the Board at its discretion.

Rates must be supported by data and an explanation of how the data justifies the rate

Meeting this component of the policy will present a significant challenge to the Board as well as D&H staff. In order to create a starting point and baseline for the underlying components of each rate the Finance Sub-committee is recommending that a professional consultant firm be retained to perform a rate study

Rates must be sufficient to support the operations of docks and harbors

This item will also present a challenge for staff as in most harbors both the facility as well as the staff support multiple user groups each of which can have their own rate structure.

Rates must replace capital investments

This item can normally be clearly defined for each facility. Policies will need to be established in consultation with the CBJ Finance director for facilities where funds from multiple sources were used. The rate study is expected to provide guidelines determining remaining useful life and repayment schedules.

Rates must build reserves for contingencies and future growth

Setting a target for building reserves will be largely a board decision but the basis and need for additional reserves must be clearly defined.

Where currently significant disparity exists between the cost allocation to user groups these need to be adjusted in a fair and appropriate manner

In some cases where rates have not been adjusted in many years a large increase may be indicated. This should be recovered over a reasonable number of years.

Approved: signed

Don Etheridge
Board Chair

Attest:

signed

Carl Uchytil
Port Director

Justification for applying CPI to all pertinent CBJ docks & harbors rates and adjusting for rates not reviewed for many years.

Based on the recently adopted Rate Setting Policy the basis for applying a CPI adjustment to all applicable rates is as follows:

Criteria 1 – It must be fair and reasonable

Is it reasonable?

Over time the cost of labor and materials changes, usually up, sometimes down. The best measure we have in Juneau of those changes is the ????????. Applying the CPI keeps the rate reasonably in sync with the general cost of living. This is reasonable.

Is it fair?

In recent years a CPI adjustment has been applied to some rates and not to others. Applying the CPI to all rates is fair. Applying a "catch up" rate to rates not adjusted in many years is also fair, particularly to those who have had their rate revised and adjusted by the CPI in recent years. It is proposed that the "catch up" period be no more than 10 years and that it not exceed 5% in any one year. This is also fair.

Criteria 2 - Is it consistent?

By applying an annual CPI adjustment to all rates which are based on an underlying cost which is subject to the change in the cost of goods and services we are consistent in applying rate changes to all user groups.

Criteria 3 - Is it supported by data and an explanation of how the data justifies the rates?

The CPI is supported by extensive data gathered by the U.S. Bureau of Labor Statistics and is generally recognized as the best available measure of the underlying change in the cost of goods and services.

Criteria 4 - Is it sufficient to support the operations of docks and harbors?

Currently this question does not have a clear answer. For those rates which have not been reassessed for a decade or more just applying the CPI even when applying a "catch up" factor as well, a further rate adjustment may be necessary. Docks & Harbors is in the process of retaining the services of a qualified firm to help in determining whether the base rate to which the CPI is being applied is appropriate or whether additional rate changes should be considered. The application of the CPI where it has not been applied historically is an interim measure until we have better data.

Criteria 5 - Is it sufficient to replace capital investment?

As in the previous question Docks & Harbors will be better able the answer to this question once the rate study has been completed.

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Criteria 6 – Will it build reserves for contingencies and future growth?

As in question 4, Docks & Harbors will be better able the answer to this question once the rate study has been completed.

Criteria 7 – Does it address disparities between user groups in a fair and appropriate manner?

By applying a “catch up” adjustment not to exceed 5% for rates which have not been adjusted in many years, the disparity between user groups will be diminished significantly while limiting the impact to any one user group by applying the 5% cap.

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