Municipality of Anchorage

Office of the Municipal Manager | Ethan Berkowitz, Mayor

October 10, 2019

Port Commissioners:

The Port of Alaska's current tariff expires Dec. 31, 2019, and new rates will have to be adopted before year's end. We are contacting you now, ahead of the October 23 Port Commission meeting, in order to maximize our remaining time for deliberation and discussion.

In prior years, the practice has typically been for the Port to develop and bring to the Commission a single tariff proposal, which the Administration recommends for approval.

This year, in light of the need to find additional funds to continue the Port of Alaska Modernization Program (PAMP), we have elected to pursue a different approach. Instead of recommending a single tariff proposal, we are instead presenting to the Commission a range of options. In the main, they divide into four:

The <u>first, "baseline" option</u> would be to raise no additional funds for the PAMP program. This option would do little more than 'keep the lights on.' It would allow the Port to pay its bills, complete routine maintenance projects, and retain 90 days of cash on hand. Tariffs would increase 3.50% in 2020; 3.93% in 2021; 3.01% each year beginning in 2021 through 2027; and 0% in the out years. Preferential-use agreement rates would increase by 2.5% in 2020, and thereafter PUA rates would increase at the same percentage rate increase as all other tariff services noted above during the ten-year forecast period.

The additional options would enable the Port to complete some, or the entirety, of the remaining work on the new Petroleum Cement Terminal:

The <u>second option</u> would minimize beluga-whale-related permitting risk, and permit the Port to <u>complete</u> the <u>in-water construction work</u> described in its National Marine Fisheries Service, IHA permit application, which is good through 2021. The in-water work consists of installing six mooring dolphins and three breasting dolphins, and connecting catwalks. The estimated cost of that work is $41 million. To generate the annual revenues needed to borrow that amount, petroleum and cement tariff rates would increase by 120.82% in 2020 (by approx. $0.20/barrel of petroleum, and approx. $2.01/ton of cement); and 1.31% in out years.

The third option would permit the Port to make the PCT fully functional for cement operations. In addition to dolphins and catwalks, this option would entail installation of a fendering system and bollard facilities. The estimated cost of the work is $60.5 million. To generate the annual revenues needed to borrow that amount, rates would increase by 176.61% in 2020 (by approx. $0.29/barrel of petroleum, and approx. $2.94/ton of cement); and 0.61% in out years.

The fourth option would permit the Port to complete the PCT. In addition to the previously described work, this option would further entail the installation of a hose tower, operations building, and petroleum piping. The estimated cost to complete the PCT is $81 million. To generate the annual revenues needed to borrow that amount, rates would increase by 235.27% in 2020 (by approx. $0.39/barrel of petroleum and approx. $3.93/ton of cement); and 0% in out years.

For each of the three "keep making forward progress on the PCT" options above the baseline, we also present "sub-options," displaying: (a) the effect of "smoothing" rate adjustments over several years, rather than one, and (b) the effect of receiving 50-year financing terms from AIDEA on $50 million of the borrowed funds.

For increased commercial certainty, we are also proposing that the tariff cover ten years, rather than five.

The Administration does not believe it would be prudent to adopt the "baseline" option. We are hopeful that a consensus in favor of one of the "keep making forward progress on the PCT/PAMP" options emerges. As the consultant recently retained by the Assembly to review the PAMP wrote in his draft report: "A scheduled 5-year tariff review period is approaching, so it is the perfect time to have the discussion of when the tariff increase will be needed to fund the project and how much." (p.8)

Last, we also present information to enable a discussion about the possibility of adopting a "per twenty-foot equivalent unit (TEU)" charge on each cargo container crossing the Port's docks, to raise funds to build new cargo capability. The Assembly's consultant reports that "[t]he User Group has acknowledged that increased tariffs are a necessary component of the PAMP" (p.84), and that "[o]ne accepted idea that has come up many times throughout this process is to bank income from the tariff increase, use it to raise other funds as a match and save up enough to do some of the needed large-scale projects." (p.8) A per-TEU charge could operationalize that suggestion, at a desired amount. For example: to raise $100 million, a TEU charge of approximately $10.61 could be adopted (raising the price of a gallon of milk by approx. $0.01)—and the relationship is approximately linear: to raise $50 million, a TEU charge of approximately $5.31 could be adopted (raising the price of a gallon of milk by approx. $0.005); to raise $200 million, a TEU charge of approximately $21.23 could be adopted (raising the price of a gallon of milk by approx. $0.02).

Because of the critical nature of this issue, the Assembly and Port Users Group are being provided a copy of this message as well.

We look forward to robust discussion on this topic and are happy to answer any questions. We intend to provide an early preview to the public at the Assembly's Thursday, October 17 Enterprise Committee meeting, and to begin deliberations in earnest at the Port Commission's October 23 meeting. As we have stated, tariff adjustments are necessary part of the PAMP, but they must be economically reasonable, and developed in close consultation with all affected parties.

Sincerely,

William D. Falsey

William D. Falsey
Municipal Manager

Cc: Assembly Members
Port Users Group

Enclosure
Port of Alaska Tariff Service Review (Weds. Oct. 23, 2019) slides