Matson

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July 13, 2020

Dear Anchorage Assembly Members,

Thank you for your continued dedication to the Port of Alaska Modernization Program ("PAMP"). The importance of the Port of Alaska ("Port") to the state's economy and overall well-being is hard to overstate. Matson is committed to collaborating with the stakeholders to optimize the cost of the PAMP and develop a financial model that is in the best interest of Alaskans. It is important to note, the PAMP is driven by the urgent need to:

1. Replace the aging piles that are nearing their end of life.
2. Reduce the ever-present earthquake risks by exceeding today's seismic standards (and, critically important, in recognition of the state's dependence on the Port).
3. Enable the Port to handle industry-standard ships (e.g., container lift-on / lift-off, or "lo-lo") and provide efficient, reliable cargo service to Alaska with parallel use by military and passenger ships, and a separate roll-on / roll-off ("ro-ro") terminal.
4. Provide a facility to support the needs of Alaska's economy over the 75-year design life of the new facility.

Lastly, the state is dependent upon the Port for its determination of what infrastructure Alaska needs to provide an effective and efficient supply chain that serves Alaskans for years to come.

Matson, and TOTE, which has served Alaska for 45 years, are the principal ocean carriers serving as the lifeline to Alaska through the Port. We provide reliable and frequent service that enables critical just-in-time inventory management. Matson's service goes beyond the Port. Uniquely, Matson continues to Kodiak with twice-weekly service and to Dutch Harbor with weekly service.

In lieu of the proposed "separate, terminal-specific tariffs" to fund the PAMP, Matson's vision for the PAMP financial plan is a simple three-step process, by which the Port:

1. In collaboration with the stakeholders, optimizes the design requirements to meet the needs of Alaskans.
2. Leverages the collective political capital of stakeholders to secure federal and state funding.
3. Implements a single tariff on the cargo that crosses the docks to fund the balance of monies needed.

Matson has serious concerns and objections with the draft PAMP plan of finance ("draft plan") presented at the May 21, 2020 Enterprise Utility Oversight Committee meeting, as set forth below.

1. **The current design estimates for Phase 2 are unaffordable for the Port, carriers and Alaskans.**
    a. The Port must eliminate costs including but not limited to reconsideration of the following major cost drivers that are on the roadmap:
        I. Length and width of berth
        II. Seismic criteria
        III. Berth line and trestles
        IV. Dredge depth

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   b. Matson has worked hand-in-hand with the project-management team over the last six months, and we are confident project costs can be reduced significantly.

2. **The "cost-causer, cost-payer" design choice is misleading and misguided. As discussed above, the following needs are the true "cost causers":**
   a. Replacing the aging piles that are nearing their end of life.
   b. Reducing the ever-present seismic risks by exceeding today's construction standards (and critically important, in recognition of the state's dependence on the Port).
   c. Enabling the Port to handle industry-standard ships (e.g., container lift-on / lift-off, or "lo-lo") and provide efficient, reliable cargo service to Alaska with parallel use by military and passenger ships, and a separate roll-on / roll-off ("ro-ro") terminal.
   d. Providing a facility to support the needs of Alaska's economy over the 75-year design life of the new facility.

3. **As the public owner of the Port, the Municipality of Anchorage should provide the infrastructure that allows carriers to operate effectively and efficiently. It needs to provide an infrastructure that:**
   a. Is not designed for the operational needs of any one carrier.
   b. Provides access for other vessels to call on the Port in case of an emergency.

   Carriers can and do change and influxes in demand happen, so the need for terminals that support common modes of transportation is important for the future viability of Alaska.

4. **The draft plan's tariff proposal to create "separate, terminal-specific tariffs" is not appropriate for a public terminal that serves the state.**
   a. The terminals are public infrastructure for the benefit of Alaskans rather than private lands.
   b. The draft plan's tariff unnecessarily increases the risk of financing for the lender resulting in higher borrowing costs for the Port.
      I. A lender does not want to assess the risk of cargo disruption due to different tariffs. Rather, it wants to see a simple model that is driven by the volume of cargo (e.g., containers, autos, etc.), that it can forecast crossing the docks at the Port regardless of the mode of transportation. It is the same concept as funding a public toll road. The forecasted volume of cars is used to determine the pricing needed to fund the project.
   c. The draft plan's tariff would exacerbate the already higher cost to Matson than TOTE. Matson pays $1.6 million per year for the maintenance of the Port's three gantry cranes. This tariff model adds an additional $506 per container or 250% more than TOTE. This is not acceptable or in the best interest of Alaskans.
      I. It will cause a tremendously un-level playing field, likely resulting in major rate disparities for customers. Higher fees will inevitably be passed on to consumers.
      II. It will cause serious economic disruption by unintentionally choosing "winners and losers" as shippers shift their volume to cheaper options.

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III. It is likely to allow TOTE to increase customer rates, which again will inevitably be passed on to Alaskans.
IV. It will change the flow of cargo within the Port and away from the Port, further complicating borrowing, as noted above, and servicing that debt.
V. Over the life of the Port, it is likely to reduce the ability for industry standard container carriers to enter and compete in the market.

Matson is committed to finding an affordable solution to the PAMP. We have no interest in over-building the Port nor gaining a competitive market advantage. Our goal is simply to continue to operate our service, compete on a level playing field, and meet the needs of Alaskans for decades into the future.

The Port, as the public owner, needs to determine its requirements to provide the infrastructure Alaska needs.

For the reasons outlined above, we are opposed to the creation of "separate, terminal-specific tariffs" to fund the PAMP, and propose the following:

1. **The draft-plan's tariff should use the "Surcharge Per Ton Required to Cover Debt Service"[1] model based on total tonnage to protect the Port's revenue stream, avoid the dislocation risks created by two "separate, terminal-specific tariffs" and retain a level playing field between the carriers.**
   a. Historically, Matson and TOTE have had approximately the same volume of cargo moving through the Port. The Port's wharfage and terminal charges are essentially the same. This means, regardless of any market share changes in volume, the Port is practically guaranteed its revenue stream. A predictable revenue stream forecast is critical to the Port as well as any potential lender.
   b. The draft surcharge to fund $800 million in debt is shown at $33.34 per ton[1], or approximately $650 per container[2]. While this would be the correct model, this is still not affordable for shippers, carriers or ultimately, Alaskan consumers. We must find an affordable solution that maintains the level-playing field.

2. **Matson is committed to purchasing the new gantry cranes needed to support its operation and maintaining them as it does today.**
   a. Carrier or terminal operator acquisitions of gantry cranes is a common practice for ports. The port provides the infrastructure and the terminal operator or carrier pays for and maintains the cranes.
   b. This is the model in Dutch Harbor and Kodiak today where Matson owns and maintains the cranes in each location.
   c. In Anchorage, we pay for the maintenance of the three cranes that are owned by the Port.

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Matson requests that the municipality develop other options that retain the level playing field between carriers. The final tariff should be uniform for both cargo terminals and **not** drive economic dislocations or increase the cost of funding due to increased risks. Nor should it disrupt the revenue stream to the Port due to volume shifts between the terminals and volume losses to competitors that do not use the Port.

Thank you for your consideration of our comments.

Sincerely,

Bal Dreyfus
Senior Vice President, Alaska
Matson

CC:
Ethan Berkowitz, Mayor, Municipality of Anchorage
Jason Bockenstedt, Chief of Staff, Mayor Ethan Berkowitz
Bill Falsey, Municipal Manager, Municipality of Anchorage
Steve Ribuffo, Director, Port of Alaska
Sharen Walsh, Port Modernization Program Director, Port of Alaska
Bill Wilks, Principal, PBA Consulting
Brad Kroon, Chair, Port of Alaska Commission
Bob Pawlowski, Vice Chair, Port of Alaska Commission
Erin Reinders, City Manager, Unalaska
Peggy McLaughlin, Port Director, City of Unalaska
Mike Tvenge, Kodiak City Manager
Monte Anderson, Harbormaster, City of Kodiak
Port of Alaska Users Group

Attachment: Municipality of Anchorage, "First Draft for Review Discussion", Port of Alaska Modernization Program Comprehensive Plan of Finance, R. Risvold Letter May 14, 2020 to A. Slivka and Mayor Berkowitz

Footnotes:

1-Municipality of Anchorage, "First Draft for Review Discussion" Port of Alaska Modernization Program Comprehensive Plan of Finance, R. Risvold Letter May 14, 2020 to A. Slivka and Mayor Berkowitz, page 6 of 10

2- Assumes an average of 20 tons per container

MUNICIPALITY OF ANCHORAGE

Office of the Chief Fiscal Officer

Phone: (907) 343-6610

Alexander Slivka, CFO

***** FIRST DRAFT FOR REVIEW DISCUSSION *****

DATE:	**May 14, 2020**
TO:	**Alexander Slivka, CFO** **Mayor Ethan A. Berkowitz**
FROM:	**Ross Risvold, Public Finance & Investments Division Manager**
SUBJECT:	**Port of Alaska Modernization Program** **Comprehensive Plan of Finance**

Phase I	**Petroleum & Cement Terminal**
Phase II	**Port Administration Building, Cargo Terminals, North End Stabilization Step 1**
Phase III	**Second Fuels Infrastructure (On hold as of March 31, 2020)**
Phase IV	**North End Stabilization Step 2**
Phase V	**Decommissioning and Demolition of Terminal 3**

Background and Purpose

Marine vessels deliver 90 percent of all fuel and freight shipped into Alaska. Half of this cargo crosses Port of Alaska (the “Port”) docks and half of that cargo moves out of Anchorage by road, rail, air or barge to destinations across the state. The Port is a critical piece of state and national defense infrastructure. Unfortunately, its half-century old docks are corroding away and need to be replaced or else they could fail within ten years, possibly sooner in the event of a large earthquake. The Port’s aging infrastructure has far exceeded its economic and design life, and the terminals are too small and shallow to efficiently handle most modern cargo container ships that are commonly used for West Coast and trans-Pacific shipping.

The Port of Alaska Modernization Program (the “PAMP”) is not a port expansion project. It is a necessary reconstruction program that will:

- Enable safe, reliable, and cost-effective Port operations,
- Improve resiliency to enable facilities to survive extreme seismic events and Cook Inlet’s harsh marine environment with minimal operation disruption,
- Update facilities to comply with current codes and standards, improve operational efficiency and sustainably accommodate modern shipping operations (e.g., support larger, deeper draft vessels),

- Optimize facilities to accommodate changing statewide economic and market needs (e.g., petroleum product shipments are increasing significantly faster than general cargo growth due to Flint Hills refinery closure in 2014) and
- Optimize project scope, schedule, and budget to deliver a practical, timely, and cost effective port-modernization program.

The PAMP will utilize Alaska firms, as well as Outside vendors, and employ approximately 300 Alaskan workers during the peak of construction in the various Phases. Construction will be phased and managed to enable continuous Port and tenant operations. Design and Construction of a new Administration building on the uplands is a discrete task that may proceed independently and should proceed as soon as possible due to life safety and security concerns associated with occupying an office building supported by a seismically compromised foundation. Construction on the Cargo Terminals will not commence until that portion of Phase II is fully funded in order to minimize costs and potential disruption to Port and tenant operations.

The PAMP is currently divided into five distinct Phases which will complete the modernization program for the Port.

Port of Alaska Debt Outstanding
Currently the Port has $40 million of debt outstanding in a Short Term Borrowing Program (STBP) in the form of a Direct Drawdown Purchase Placement (DDPP) Loan. As of April 1, 2020, the debt service on this debt is currently interest only and is costing approximately 1.88%.

Information Needed to Commence With a Plan of Finance
In order to establish the most appropriate and most cost-effective Comprehensive Plan of Finance the following information is required:

1 The amount of funding required to construct the Phases of the PAMP,
2 A project description of each Phase of the PAMP,
3 When the funding is required and
4 The sources of revenue to repay the sources of funds that require repayment.

COMPREHENSIVE FIVE PHASE PLAN OF FINANCE

PHASE I – PETROLEUM CEMENT TERMINAL

Completion of the Petroleum Cement Terminal (PCT) is Phase I of the PAMP. The Construction Plan and the Plan of Finance for Phase I is underway and is expected be completed by the end of 2021.

PHASE I - PLAN OF FINANCE

On February 11, 2020 the Municipal Assembly passed No. AO 2020-16 approving the Plan of Finance for Phase I and authorized the issuance of up to $100 million of debt for the purpose of refunding the $40 million STBP and to provide additional funds for the completion of the PCT. This debt, combined with previously awarded State of Alaska grants, Federal Grants and Port Equity will completely fund Phase I. Increased tariff rates for petroleum and cement were approved by both the Port Commission and the Anchorage Assembly. These rates should generate sufficient revenue to cover the expected debt service on this Port debt.

PHASE II – CARGO TERMINALS & ADMINISTRATION BUILDING

Phase II of the PAMP is consists of four main elements. They are the new Port Administration Building, Terminal 1 and Terminal 2 (the "Cargo Terminals"), and Step 1 of the North End Stabilization (NES). Construction of Cargo Terminals for the carriers Matson and TOTE requires a plan of finance that identifies sources of funds above and beyond Port equity that may result from settlement of the MARAD Litigation and State of Alaska grants. The plan for construction is not yet complete, however, we do have a Plan of Finance for the Phase II terminals which may be modified to fit the cost of the Cargo Terminals once a final cost for the Construction Plan is known. In the meantime, we are assuming that the cost of construction for Phase II is $1.083 billion in today's dollars. Elements of Phase II and their expected costs are recited below.

- New Port Administration Building forecasted to cost approximately $15 million.
- Terminal 1 – Terminal 1 will consist of a modern 'Lift On Lift Off' (LOLO) crane operated facility forecasted to cost approximately $672 million. It will be initially used by Matson, Inc. (Matson).
- Terminal 2 – Terminal 2 will consist of modern 'Roll On Roll Off' (RORO) truck operated facility that is forecasted to cost approximately $275 million. It will be initially used by Totem Ocean Trailer Express (TOTE).
- North End Stabilization Step 1 forecasted to cost approximately $121 million.

Terminal 1 – Replacement Lift-On/ Lift-Off Terminal
The primary role of this terminal is to transfer containerized cargo from ship to shore. This terminal will be designed to comply with the most current seismic design standards. The terminal wharf features a 1,000-foot long structure connected to the shore by 4 each 30-foot wide trestles. The terminal will be a concrete structure founded on steel piles. The terminal will accommodate container vessels up to 700-feet long, with drafts of up to 36-feet. The terminal will include multiple rail-mounted ship to shore gantry cranes to support lift-on/lift-off operations and will include a stevedore operations facility approximately 1,200 square feet in size. The terminal is scaled for the Alaska container cargo trade, customized to include those tenant improvements necessary to support forecasted tenant specific short and long-term operational requirements. This general-purpose cargo terminal will also support large non-containerized cargo and military surface deployment operations as required.

Terminal 2 – Replacement Roll-On/ Roll-Off Terminal
The primary role of this terminal is to transfer rolling cargo from ship to shore. This terminal will be designed to comply with the most current seismic design standards. The terminal wharf features a 300-foot long structure with stevedore operations facility (similar in size to that on Terminal 1) connected to the shore by a 30-foot wide trestle. There are two additional 30-foot wide trestles with breasting dolphins connecting the vessel to the shore to accommodate three offloading ramps aligned with a "roll-on/roll-off" vessel. The terminal will be a concrete structure founded on steel piles. The terminal will accommodate vessels up to 1,000-feet long, with drafts of up to 36-feet. The terminal design is scaled to accommodate the Alaska rolling cargo trade. The terminal will be customized to include those tenant improvements necessary to support forecasted short and long-term operational requirements.

PHASE II – PORT ADMINISTRATION BUILDING PLAN OF FINANCE

A new Administration Building is planned for the Port and is expected cost $15,000,000. This is part of PAMP Phase II.

Source of Funds for Phase II – Administration Building
The source of funds for the Building is anticipated to be proceeds of a grant from the State of Alaska and may include one or more federal Port Security Grants that have already been applied for. The Municipality is working with the State Legislature and Administration on a plan to ask the voters of the State to authorize and approve a $200 million general obligation bond for the PAMP. If approved, it is expected that $15 million of these bond proceeds, reduced by the amount of any federal Port Security Grants received, would be used to pay for the Administration Building. Such grant funds are likely to be disbursed to the Municipality on a quarterly reimbursement basis without the expectation of repayment to the State or the federal government.

Alternative Source of Funds for Phase II – Administration Building
In the absence of capital grants from the State of Alaska or the federal government, the CFO and the Public Finance Division anticipate utilizing a tax-exempt STBP beginning in the first-year funds are required to commence with making payments related to Phase II. Once Phase II is complete, the short-term debt will be refunded with tax-exempt long-term revenue refunding bonds or intermediate term bonds or notes.

Using a STBP is prudent and provides flexible financing alternatives for the Municipality. This concept is also very cost effective and a Best Practice for the Port's financing requirements and supported by the Municipality's financial advisor.

In the event that a viable financing alternative becomes available that is more cost effective, such as a grant or a low cost interest rate loan, from the State of Alaska or the federal government, such alternative would be utilized prior to borrowing in the capital marketplace.

Sources of Revenues for Repayment of Phase II Debt – Administration Building
In the circumstance where debt is incurred to finance the Administration Building, the source of revenue to pay for the debt service on Phase II is initially proposed to be a surcharge across all Port users.

PHASE II – CARGO TERMINALS & ADMINISTRATION BUILDING PLAN OF FINANCE

Source of Funds for Phase II – Cargo Terminals
The source of funds for the Cargo Terminals is anticipated to include of a grant from the State of Alaska. The Municipality is working with the State Legislature and Administration on a plan to ask the voters of the State to authorize and approve a $200 million general obligation bond for the PAMP. If approved, it is expected that $80.5 million of these grant proceeds would be used to pay for Terminal 1 and $80.5 million would be used to pay for Terminal 2. Such grant funds are likely to be disbursed to the Municipality on a quarterly reimbursement basis without the expectation of repayment to the State.

Additionally, we anticipate using funds in the form of Port revenue bonds to fund Phase II. The CFO and the Public Finance Division currently anticipate utilizing a tax-exempt STBP beginning in the first year funds are required to commence with making payments related to Phase II. Once a certain level of debt is established in a STBP, perhaps $100 - $200 million, then that amount of short-term debt will be refunded with tax-exempt long-term revenue refunding bonds. This process would be continued until Phase II is completely paid for.

Using a STBP is prudent and provides flexible financing alternatives for the Municipality. This concept is also very cost effective and a Best Practice for the Port's financing requirements and supported by the Municipality's financial advisor.

Sources of Revenues for Repayment of Phase II Debt – Cargo Terminals

The source of revenue to pay for the debt service on the proposed $719 million of debt is initially proposed to come from a surcharge per cargo ton that crosses the wharf in either direction. The average surcharge per ton to cover debt service equals $29.95 per ton and is calculated in the table below. Since the Municipality is actively engaged with the two current users, who have very different needs, in constructing two separate and distinct terminals, it seems logical to charge the respective initial users the respective amount for the cost of financing the terminals. We believe this "cost causer, cost payer" approach gives each current user the incentive to keep the cost of construction as low as possible.

The table below also calculates the surcharge per cargo ton by user for the two main users of the Port, Matson and TOTE. This table assumes Terminal 1 requires $529.1 million of debt and Terminal 2 requires $189.5 million of debt. Based upon this proportionate share of debt sold by the Municipality, the Municipality would charge users of Terminal 1 (Matson and any others) a surcharge of $41.94 per cargo ton and charge users of Terminal 2 (TOTE and any other users) a surcharge of $16.65 per cargo ton.

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PORT OF ALASKA

PAMP PHASE II - CARGO TERMINALS

Calculation of Tonnage Surcharge

Debt Proceeds	**$718,618,452**	**$800,000,000**	**$200,000,000**	**$100,000,000**	**$50,000,000**
Annual Debt Service	38,136,722		10,613,900		
Coverage at 1.3 Times	11,441,017		3,184,170		
Required Revenue	49,577,739	55,192,280	13,798,070	6,899,035	3,449,518
Tonnage in 2018		1,631,303	1,631,303	1,631,303	1,631,303
Surcharge Per Ton Required to Cover Debt Service		**33.83**	**8.46**	**4.23**	**2.11**
Tonnage in 2019	1,655,612	1,655,612	1,655,612	1,655,612	1,655,612
Surcharge Per Ton Required to Cover Debt Service	**29.95**	**33.34**	**8.33**	**4.17**	**2.08**

Calculation of Tonnage Surcharge By User

User	Current Estimated Cargo Terminal Cost	Non Debt Funds	Funds From Debt	2019 Tonnage	Required Revenue	**Surcharge Per Ton**
Terminal 1 - Matson	$672,000,000	$142,881,548	$529,118,452	870,370	$36,504,067	$41.94
Terminal 2 - TOTE	$275,306,376	$85,806,376	$189,500,000	785,242	$13,073,671	$16.65
Totals	$947,306,376	$228,687,924	$718,618,452	1,655,612	$49,577,739	

NOTES

The initial cost of the Cargo Terminals is $947,306,376
Debt is capped at $800 million, with the balance expected from grants and the private sector
Debt service is based upon interest rates as of November 8, 2019
Current tariff is $2.20 per ton

TEFRA Hearing Requirement

Federal tax law requires the Municipality to hold a public hearing to protect the tax-exempt status of the Port's debt. Pursuant to Section 147(f) of the United States Internal Revenue Code of 1986, as amended, the Municipality is required to hold a public hearing on the issuance of obligations that will be private activity bonds, pursuant to published notice on the Municipality's website or in a newspaper of general circulation in the Municipality. The public hearing will be noticed by the Chief Fiscal Officer's department and held prior to the adoption of the bond ordinance. The TEFRA hearing would be held prior to the proposed ordinance's public hearing to comply with federal tax law.

PHASE II - CARGO TERMINALS
PLAN OF FINANCE - RECOMMENDATION

Passage of a new ordinance authorizing the issuance of up to $800 million comprised of borrowing programs that includes flexibility for the CFO to utilize the most appropriate and most cost-effective source of funds which may include STBPs, port revenue bonds and grant funds. The proposed debt will not be a general obligation of the Municipality.

PHASE II – NORTH END STABILIZATION STEP 1
PLAN OF FINANCE

The North End Stabilization (NES) Step 1 is part of PAMP Phase II which will stabilize the southern-most 1,500 linear feet of land so it is safe to use. The Port leases out some of that land for tenant storage and for Port maintenance and snow storage. The North Extension area will be partially removed to address geotechnical, seismic stability, and navigational concerns. NES Steps 1 and 2 includes removal of a sheet pile wall varying in height from 30-feet to 90-feet, excavation or dredging and disposal of approximately 2 million cubic yards of soil, and installation of armor stone along the shoreline. This project will stabilize the project area while maximizing retention of the existing surface area used for storage.

The Port is required to stabilize this land that was created at the north end of the Port as it was compromised during the Port's former expansion program. This newly created land is compromised, unstable and unsafe as a result of improper design and faulty construction.

At this time, the Municipality has an approved and permitted 35% design solution. This solution for Step 1 is forecasted to cost $118 million to design, construct and stabilize the North End.

Source of Funds for Phase II – NES Step 1

The Municipality brought suit against the United States Maritime Administration due to its mismanagement of the Port Intermodal Expansion Project ("PIEP"). The Municipality is vigorously pursuing damages of approximately $330 million dollars. If the Municipality prevails, the funds will become unrestricted assets of the Municipality, available to fund NES Steps 1 and 2.

Sources of Revenues for Repayment of Phase II Debt – NES Step 1

In the circumstance where debt is incurred to finance the NES Step 1, the source of revenue to pay for the debt service on NES Step 1 is initially proposed to be a surcharge across all Port users.

PHASE III – SECOND FUELS INFRASTRUCTURE

Phase III of the PAMP consists of the design and construction of a second Fuel Line to offload petroleum, oil and lubricants (POL) from ocean vessels. All project development has been halted as of March 31. 2020. Necessity of this component of the project will be re-examined after Phase 1 (PCT) is complete and operational. It may be most economical to integrate additional fuels infrastructure into a future cargo terminal, thereby eliminating the need for a second, standalone fuels facility.

PHASE IV – NORTH END STABILIZATION STEP 2

Phase IV of the PAMP consists of the continued design, construction and stabilization of northern-most 1,500 linear feet of the North End of the Port. The North Extension area will be partially removed to address geotechnical, seismic stability, and navigational concerns. NES Steps 1 and 2 includes removal of a sheet pile wall varying in height from 30-feet to 90-feet, excavation or dredging and disposal of approximately 2 million cubic yards of soil, and installation of armor stone along the shoreline. This project will stabilize the project area while maximizing retention of the existing surface area used for storage.

The Municipality brought suit against the United States Maritime Administration due to its mismanagement of the Port Intermodal Expansion Project ("PIEP"). The Municipality is vigorously pursuing damages of approximately $350 million dollars. If the Municipality prevails, the funds will become unrestricted assets of the Municipality, available to fund NES Steps 1 and 2.

Phase IV and Phase V could be accomplished in either order.

PHASE IV – NORTH END STABILIZATION STEP 2
PLAN OF FINANCE

Source of Funds for Phase IV – NES Step 2

At this time NES Step 2 has not been designed. The Municipality expects that the design solution will be similar to the NES Step 1 and the cost estimates are a projection of NES Step 1 design details. This solution is forecasted to cost $132 million to design, construct and stabilize the north half the NES.

The first source of funds for the NES Step 2 was secured in the form of grant proceeds from the State of Alaska in the amount of $551,116. The Municipality's Administration is working with the State Legislature to discuss future authorization and approval of future capital grants to fund certain portions of the PAMP. Such grant funds are likely to be disbursed to the Municipality on a quarterly reimbursement basis without the expectation of repayment to the State.

The second source of funds is anticipated to be proceeds of the MARAD settlement, assuming the courts rule in favor of the Municipality. The Municipality brought suit against the United States Maritime Administration due to its mismanagement of the Port Intermodal Expansion Project ("PIEP"). The Municipality is vigorously pursuing damages of approximately $350 million dollars. If the Municipality prevails, the funds will become unrestricted assets of the Municipality, available to fund NES Steps 1 and 2.

Alternative Source of Funds for Phase IV – NES Step 2
In the absence of capital grants from the State of Alaska, the CFO and the Public Finance Division anticipate utilizing a tax-exempt STBP beginning in the first-year funds are required to commence with making payments related to Phase IV. Once Phase IV is complete, the short-term debt will be refunded with tax-exempt long-term revenue refunding bonds or intermediate term bonds or notes.

Using a STBP is prudent and provides flexible financing alternatives for the Municipality. This concept is also very cost effective and a Best Practice for the Port's financing requirements and supported by the Municipality's financial advisor.

In the event that a viable financing alternative becomes available that is more cost effective, such as a grant or a low cost interest rate loan, from the State of Alaska or the federal government, such alternative would be utilized prior to borrowing in the capital marketplace.

Sources of Revenues for Repayment of Phase IV Debt
In the circumstance where debt is incurred to finance the NES Step 2, the source of revenue to pay for the debt service on Phase IV is initially proposed to be a surcharge across all Port users.

PHASE V – DECOMMISSIONING AND DEMOLITION OF TERMINAL 3

Phase V of the PAMP consists of the decommissioning and demolition of Terminal 3 which was constructed during the 1970's. Terminal 3 demolition includes 24,000 square feet of concrete trestle deck from 4 trestles, 63,000 square feet of concrete wharf deck, and removal of 550 steel piles in the water The piles will be cutoff at the mudline and the upper portion removed with the concrete deck. All pilings and decks are in or over sea water.

Phase IV and Phase V could be accomplished in either order.

PHASE V – DECOMMISSIONING AND DEMOLITION OF TERMINAL 3 PLAN OF FINANCE

Source of Funds for Phase V – Demolition of Terminal 3
At this time, the Municipality has a concept design for the decommissioning and demolition of Terminal 3. Such concept design is forecasted to cost $48 million.

The first source of funds for the Phase V was secured in the form of grant proceeds from the State of Alaska in the amount of $193,725. The Municipality is working with the State Legislature and Administration discussing future authorization and approval of future capital grants to fund certain portions of the PAMP. Such grant funds are likely to be disbursed to the Municipality on a quarterly reimbursement basis without the expectation of repayment to the State.

The second source of funds for Phase V is anticipated to be proceeds of a grant from the State of Alaska. The Municipality is working with the State Legislature and Administration on a plan to ask the voters of the State to authorize and approve a $200 million general obligation bond for the PAMP. Such grant funds are likely to be disbursed to the Municipality on a quarterly reimbursement basis without the expectation of repayment to the State. This source of funds represents $24 million.

The third source of funds for Phase V is anticipated to be Port equity in the form of tariffs collected by the Port prior to the anticipated demolition date. This required amount would be $24 million.

Sources of Revenues for Repayment of Phase V Debt – Demolition of Terminal 3
In the circumstance where debt is incurred to finance the decommissioning and demolition of Terminal 3, the source of revenue to pay for the debt service for Phase V is initially proposed to be a surcharge across all Port users.

ADDITIONAL INFORMATION – OTHER SOURCES OF FUNDS

The many various alternatives previously outlined in numerous prior drafts of a Plan of Finance for the PAMP have included the following alternatives. These alternatives typically provide a lower cost of funds and will be utilized to the degree available and will offset higher cost of funds accordingly.

TIFIA Loan from the Federal Government
Federal Grants
State of Alaska Grants
Other Grants
Public Private Partnerships
AIDEA Participation
AHFC Participation
MARAD Litigation Settlement Proceeds
Establishment of a Port Authority

cc:
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PAMP Plan of Finance

		Totals				Federal Grants						State of Alaska			MOA	Port of Alaska		Third Party
		Total Funding Required	Secured Funding	Funding Shortfall		INFRA	BUILD	PIDP	EDA	FEMA	DoD	Capital Grants	Hazard Mitigation Grant	GO Bond	MOA-MARAD Settlement	Fund Balance	Tariffs	Private Sector Investment
Phase 1	PCT		$ 133,493,830		Secured							$ 122,213,752				$ 11,280,078		
				$ 76,349,928	Anticipated		$ 25,000,000	$ 20,000,000									$ 29,349,928	$ 2,000,000
		$ 209,843,758			Total		$ 25,000,000	$ 20,000,000				$ 122,213,752				$ 11,280,078	$ 29,349,928	$ 2,000,000
Phase 2	NES Step 1		$ 2,725,558		Secured							$ 2,725,558						
				$ 117,880,443	Anticipated										$ 117,880,443			
		$ 120,606,001			Total							$ 2,725,558			$ 117,880,443			
	Port Admin Bldg Replacement		$ -		Secured													
				$ 15,000,000	Anticipated									$ 15,000,000				
		$ 15,000,000			Total									$ 15,000,000				
	Terminal 1		$ 12,381,548		Secured							$ 12,321,587				$ 59,961		
				$ 659,618,452	Anticipated									$ 80,500,000			$ 529,118,452	$ 50,000,000
		$ 672,000,000			Total							$ 12,321,587		$ 80,500,000		$ 59,961	$ 529,118,452	$ 50,000,000
	Terminal 2		$ 5,306,376		Secured							$ 5,246,415				$ 59,961		
				$ 270,000,000	Anticipated									$ 80,500,000			$ 189,500,000	
		$ 275,306,376			Total							$ 5,246,415		$ 80,500,000		$ 59,961	$ 189,500,000	
Phase 3	Second Fuels Infrastructure		$ 2,277,847		Secured							$ 2,277,847						
					Anticipated													
		$ 2,277,847			Total							$ 2,277,847						
Phase 4	NES Step 2		$ 551,116		Secured							$ 551,116						
				$ 132,129,641	Anticipated										$ 132,129,641			
		$ 132,680,757			Total							$ 551,116			$ 132,129,641			
Phase 5	Terminal 3 Demolition		$ 193,725		Secured							$ 193,725						
				$ 47,823,083	Anticipated									$ 24,000,000			$ 23,823,083	
		$ 48,016,808			Total							$ 193,725		$ 24,000,000			$ 23,823,083	
		$ 1,475,731,547	$ 156,930,000	$ 1,318,801,547		$ -	$ 25,000,000	$ 20,000,000	$ -	$ -	$ -	$ 145,530,000	$ -	$ 200,000,000	$ 250,010,084	$ 11,400,000	$ 771,791,463	$ 52,000,000

Notes:

1. Terminal 1 reduced 10% to reflect lower bid values from Pacific Pile and Marine were 20% lower than Engineer's Estimate
2. Terminal 2 reduced 10% to reflect lower bid values from Pacific Pile and Marine were 20% lower than Engineer's Estimate and TOTE current concept is approx 2/3 of the preliminary engineering concept.
3. Second Fuels Infrastructure $0 since need is uncertain
4. PCT reduced from previous estimate based on current Estimate at Completion (EAC)