Municipality of Anchorage

Municipal Assembly Worksession

Surcharge Concept
(Repayment of Port Debt for the PAMP)

Friday May 12, 2023

Port of Alaska Modernization Program
(PAMP)

Surcharge Worksession

Presentation Participants

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  - Chief Fiscal Officer
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  - Independent Municipal Advisor to the Municipality
- Ross Risvold
  - Public Finance & Investments Division Manager

Agenda

- PAMP Cost By Phase
- Policy Considerations & Assumptions
- Surcharge Concept
- Surcharge Concept Rate Design
- Surcharge Concept Implementation Schedule
- Conclusion & Recommendation

PAMP
Cost By Phase

• Initial Planning & Startup		$ 22.8 million
• Phase I		
– Petroleum and Cement Terminal (PCT)		$ 220.9 million
• Phase II A		
– Administrative Building	(Complete Dec 2023)	$ 11.1 million
– North End Stabilization Step 1	(Complete Dec 2024)	$ 132.0 million
Total Phase II A		$ 143.1 million
• Phase II B		
– Cargo Terminal Replacement	(Complete 2030)	$ 1.105 Billion
• Phase II Total		$ 1.248 Billion
• Phase III		
– Petroleum Terminal 2	(Complete 2032)	$ 185.2 million
• Phase IV		
– North End Stabilization Step 2	(Complete 2031)	$ 134.5 million
• Phase V		
– Terminal 3 Demolition	(Complete 2032)	$ 55.3 million
PAMP ALL Phases - Total Cost		**$ 1.867 Billion**

Policy Considerations & Assumptions

1. Surcharge Concept

   For recovery of PAMP marine terminal costs, using a per ton/per barrel Surcharge on all commodities crossing the terminal

   Recalibrates tariff rates for Petroleum and Cement Users beginning in 2024

2. All construction costs provided by Jacobs are as of October 2022 and use ‘mid-point of construction’ escalation figures which include inflation
3. 30-year bonds were sold in 2020 for the PCT
4. Additional bonds are anticipated to be sold in 2023
5. Tariff and Surcharge rates developed from this point forward assume bonds will be issued with a 40-year term
6. Tariff and Surcharge rates will be evaluated annually to reflect actual debt incurred and adjusted as necessary
7. Cruise Ship activity is charged in the current Tariff 9.1

Surcharge Concept

1. **The Surcharge Concept is based upon Commodities crossing the terminal on a per ton / per barrel basis**
   - A surcharge on all commodities will be used to generate the required revenue to support the debt needed to complete all phases of the PAMP
   - Amounts to approximately 82% of overall PAMP costs
     - Petro (Portion of Phase 1 and All of Phase 3)
     - Cement (Portion of Phase 1 only)
     - Cargo (Phase 2B only)

2. **The Remaining Cost is Assigned to all Port Users**
   - This portion of the PAMP benefits all Port users and the existing tariff will be adjusted and be applied to all port users to generate the required revenue to support the debt needed to complete the phases identified below
   - Amounts to approximately 18% of overall PAMP costs
     - Administrative Building (Phase 2A)
     - North End Stabilization (Phase 2A and Phase 4)
     - Demolition Terminal 3 (Phase 5)

Surcharge Concept

3. Required Revenue

- Required Revenue is the amount of revenue that investors and rating analysts require to invest in and rate the credit (bonds) issued by the Port. Required Revenue is composed of the amount of debt service due plus an additional amount above the debt service due to give investors and rating analysts comfort that the funds borrowed will be repaid.
- This results in what is known as a Coverage Ratio.

4. Surcharge Revenue Account

- The Surcharge revenue will be held in one separate Port Surcharge Revenue Account in SAP. This account will be used exclusively for Surcharge revenue and any other funds collected for debt service as part of the Tariff. The funds therein will be restricted as to use. The only permitted uses of the funds in the Surcharge Revenue Account will be used for:
    - Payment of debt service on Port debt and
    - Payment for capital expenditures for the Port once the PAMP is complete.
        - This means the funds would be used for capital expenditures for the purpose of rebuilding the Port, presumably in 50 - 75 years, and or
        - Capital repairs of damage that results from a catastrophic event once the PAMP is complete.

Surcharge Concept

5. **Calculation of the Surcharge Amounts**
    - The lenders (specifically including the federal government in a TIFIA loan application) will want to see a method of financing (at least initially). The Port would not be able to obtain loans unless the Port can demonstrate firmly that there would be sufficient required revenues to support repayment of the loan.
    - Then, tariffs (subject to FMC - Federal Maritime Commission review) are expected to be fair and nondiscriminatory, and equal tariffs generally are fair and nondiscriminatory, absent substantial evidence to the contrary.
    - Lenders would like to see a business model that firmly supports repayment of debt.
    - In the following pages we have calculated the Surcharge that produces the Required Revenue.

6. **Uniform Pricing**
    - As an Enterprise Fund and Nonregulated Utility – the Port of Alaska recovers all costs through user fees
    - Port infrastructure investment costs are typically recovered using a Surcharge method
    - The Surcharge Concept of assigning a Surcharge to a specific commodity (Petro, Cement, Cargo) coming across the dock is the policy recommendation of the Municipality and the Port of Alaska Commission
    - This recommendation is based upon Uniform Pricing which is the concept of one price for each User of a particular terminal
    - This Surcharge Concept, particularly the Uniform Surcharge for Cargo Terminal Users, has been vetted and reviewed by the Municipality's Bond Counsel, Municipal Advisor and independent advisors to the Port, and is consistent with the Municipality's prior practice to support usage pricing and operations
    - The amount of the Surcharge will be reviewed annually

    - **<u>This Surcharge Concept is a fair, transparent, equitable and legally defensible Concept</u>**

Surcharge Concept

7. **Uniform Pricing – Other Sea Ports**

- Ports have different business models and different geography; different competitive locations So there really is no single common financial structure. Some ports are operating ports; some ports are landlord ports which means that the Port has leases with tenants and those leases each have different terms.

8. **Investors & Rating Agencies**

- Rating Agencies will evaluate the Port to determine whether the Port can repay the debt incurred for the Project
- Investors (including the federal government) will need to be confident that they will be repaid
- The adoption of the surcharge is essential to convince the rating agencies and investors of repayment

9. **TIFIA Loans**

- The U.S. Department of Transportation issues loans for major transportation projects. The program is called TIFIA.
- The Municipality has begun the process of applying for approximately $430 million of TIFIA loans for Phases 1 and 2 of the Project
- The Municipality will need to adopt a surcharge before the TIFIA loan is approved
- In the absence of a TIFIA loan, the Municipality would need to issue additional debt in the capital marketplace

Surcharge Concept
Rate Design

Commodity Surcharge Concept Calculations

Commodity		Cement Tons	Cargo Tons	Petro Barrels	
2021 Tonnage/Barrels		88,000	1,634,000	15,523,693	
Percentage Value to Each Terminal / Commodity		1.05%	72.81%	26.14%	100.00%
Outstanding Debt 2020 Series A	$19,000,000				
Additional Debt 2023	$65,000,000				
Debt Outstanding - Forecasted	$84,000,000				
2020 Series A Bonds and 2023 Bonds Annual Required Revenue	$7,268,045	$76,566	$5,291,521	$1,899,958	$7,268,045
Commodity Surcharge Per Ton / Barrel 2024		$0.87	$3.24	$0.1224	
Commodity Surcharge Per Ton / Barrel 2024, including the 5% Variance Factor		$0.91 / Ton	$3.40 / Ton	$0.1285 / Barrel	

NOTES
Surcharge to be effective January 1, 2024 and is evaluated every year thereafter
Required Revenue, Additional Debt in 2023 and Surcharges are Forecasts
Surcharge includes a 5% Variance Factor for Forecasted Tonnage & Barrels
The Required Revenue for the $46,000,000 2020 Series B Bonds is provided for in the Baseline Tariff
The Percentage Value is based upon Phase I, Phase II B and Phase III cost of $1.5 Billion

Surcharge Concept
Rate Design

Commodity Surcharge Concept Calculations

Commodity	Cement	Cargo	Petro (Barrels)
Surcharge Per Ton/Barrel 2024	$0.91	$3.40	$0.1285
Surcharge Per Ton/Barrel 2025	$0.91	$3.40	$0.1285
Surcharge Per Ton/Barrel 2026	$0.91	$3.40	$0.1285
Surcharge Per Ton/Barrel 2027	$0.91	$3.40	$0.1285
Surcharge Per Ton/Barrel 2028	$0.91	$3.40	$0.1285
Surcharge Per Ton/Barrel 2029	$0.91	$3.40	$0.1285
Surcharge Per Ton/Barrel 2030	$0.91	$3.40	$0.1285

NOTES

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Surcharge Concept
Rate Design

Commodity Price Impact

Commodity	Weight in Lbs	Surcharge Per Ton	2024 Impact
Impact on a Gallon of Milk	8.6	$3.40	$0.0146
Impact on a Loaf of Bread	1	$3.40	$0.0017
Impact on a 5,000 lb Pickup Truck	5,000	$3.40	$8.5000
Impact on a 40lb Bag of Cement	40	$0.91	$0.0182

	Unit of Measure (1/42nd of a Barrel)	Surcharge Per Barrel	2024 Impact
Impact on a Gallon of Gasoline	0.0238	$0.1285	$0.0031

NOTES

Surcharge to be effective January 1, 2024 and is evaluated every year thereafter

Surcharge includes a 5% Variance Factor for Forecasted Tonnage & Barrels and is evaluated every year

It is difficult to quantify the financial impact of the Surcharge on any particular item; such as a gallon of milk, a gallon of fuel, lumber delivered to various lumber yards across the State or a pickup truck delivered to Fairbanks or Kenai. In our review, we have assumed that the entire Surcharge is passed on to the ultimate consumer

Surcharge Concept Implementation Schedule

1. Port Staff has modified Tariff 9.1 to Become Tariff 10.0

2. Ordinance No. 2023-34 for the new Proposed Tariff 10.0 was introduced to the Municipal Assembly at the Regular Meeting on March 21, 2023

3. Assembly Holds a Public Work Session May 12, 2023 Regarding the Surcharge Concept

4. Assembly Holds Public Hearing for the new Tariff Ordinance at a Regular Meeting

5. Tariff 10.0, which includes the Surcharge, Becomes Effective January 1, 2024, if approved

File: 2023 Port / Surcharge Concept Assembly Worksession

Related File: 2022 Port / SURCHARGE CALCULATION Port – MADS – Required Revenues – DSCR 09-24-2022 xls

Conclusion & Recommendation

As an Enterprise Fund and Nonregulated Utility – the Port of Alaska recovers all costs through user fees

Port infrastructure investment costs are typically recovered using a Surcharge method

The Surcharge Concept of assigning a Surcharge to a specific commodity (Petro, Cement, Cargo) coming across the dock is the policy recommendation of the Municipality and the Port of Alaska Commission

This recommendation is based upon Uniform Pricing which is the concept of one price for each User of a particular terminal

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