



April 16, 2021

Ms. Deanna Thomas
Assistant Borough Manager
1900 First Avenue Suite 210
Ketchikan, Alaska 99001

Dear Ms. Thomas:

Re: Request for Community Financial Information

With regard to the above referenced subject, please be advised that I am in receipt of your email correspondence to Assistant City Manager Lacey Simpson dated March 31, 2021. Detailed below is the City's response to the information requested by Mayor Dial.

- The city funds in deficit mode and the needed mill rate and % increase in each fund required to balance.

Response: Please see attached Exhibit A "General Government Operating Funds and Drawdown of Appropriated Reserves for Fiscal Year 2021" based on the adopted budget for General Government and the requisite drawdown of reserves to have revenues and expenditures balance; the subsequent utilization of CARES Act funding; and the March 18, 2021 approved mitigation plan for General Government in anticipation of no major cruise activity in Ketchikan for the 2021 season and the projected use of ARP funding (see Exhibit C).

Please see attached Exhibit B "KPU Enterprise Fund and Drawdown of Appropriated Reserves for Fiscal Year 2021" based on the adopted budget for Ketchikan Public Utilities and the requisite drawdown of reserves to have revenues and expenditures balance; the subsequent utilization of CARES Act funding; and the March 18, 2021 approved mitigation plan for Ketchikan Public Utilities in anticipation of no major cruise activity in Ketchikan for the 2021 season and the projected use of ARP funding. Please note that Exhibit B also provides a ten-year audited summary of the profit/loss statements of each of KPU's three operating divisions (see Exhibit C).

No millage increase was required to balance the General Fund in 2021. A 1.5% increase in electric rates and a 5.0% increase in water rates were approved on February 18, 2021 with effective dates of June 1 and April 1, 2021 respectively (see Exhibits D and E).

It is too early in the fiscal year to project potential increases in the millage rate or utility fees for 2022. Detailed histories of millage rates, sales tax rates and utility rates are detailed in the attached Exhibit F.

- The current status with the City's water treatment issue. I seem to recall from a recent city meeting that they have entered a "consent decree?" I may have the technical term wrong, but they had an executive session recently to discuss this and I believe they are getting close to legal action to fight a requirement to construct a water filtration plant. Per the City Manager at a recent meeting he quoted \$70 mill, plus 2-3 mill per year to operate. Can staff verify with the City and provide a short narrative of the risk that the community will be forced into this? Also, per the City Mayor, if they were forced the cost would be spread over 2500 customers. What would this likely mean for the customer? Double. . .triple water bill?

Response: Please see attached Exhibit G "City of Ketchikan, Alaska Congressional Alert: Assistance Needed to Address the City of Ketchikan's Drinking Water System." The City is presently in negotiations with the Alaska Department of Environmental Conservation for a Compliance Order by Consent in lieu of the department's November 2019 directive to construct water filtration facilities. The City anticipates receiving a draft COBC from ADEC within the next two weeks, which will address the following concerns: 1) Watershed Consolidated Ownership; 2) Watershed Control Program; 3) Source Water Quality; 4) Water Treatment Requirements. The intended goal is to secure a Limited Alternative to Filtration (LAF) that would permit the City to continue treating its water supply using facilities in place and/or as may be modified by the COBC. Failure to secure the LAF will likely result in KPU having to construct water filtration facilities.

- What are the issues with City wastewater treatment? What is the risk that capital expenditures will be required to address this and any idea of the potential costs?

Response: Please see attached Exhibit H "City of Ketchikan Preliminary White Paper on the Tongass Narrows Being Classified as an Impaired Water Body and the Potential Impacts on the City of Ketchikan Charcoal Point Wastewater Treatment Plant." Until such time as ADEC takes a definitive position on this issue of declaring the Tongass Narrows as an impaired water body, the City can only speculate on possible outcomes.

- Any major city capital costs needed, but not budgeted for? I seem to recall that anti corrosion work on the local docks is needed.

Response: As a result of large cruise ships not visiting Ketchikan in 2020 and 2021, the Port of Ketchikan will likely incur revenue losses of approximately \$21.5 million. Absent an infusion of other City controlled funds, the Port of Ketchikan will become insolvent by the end of 2021 and be unable to meet debt service and Berth IV lease obligations.

In order to keep the Port Enterprise Fund solvent, in 2021 the City proposes to transfer \$3.1 million from the Commercial Passenger Vessel (CPV) Fund. A second transfer will likely be necessary to fund Port start up and operational costs in 2022, as well as ongoing debt service and Berth IV lease obligations. The City intends to treat both transfers as loans, tied to a fixed interest rate with a defined payback schedule.

Given the loss of Port revenues in 2020 and 2021, the City no longer has the financial resources to undertake corrosion maintenance and cathodic protection for Berths I and II and the placement of additional mooring dolphins and bollards for Berth III (see Exhibits I and J.)

Additional General Government and KPU capital projects have been deferred under the mitigation plans that were adopted by the City Council on March 18, 2021 (see Exhibit C). Such deferred maintenance will potentially stress future millage rates and utility fees as the City attempts to “catch up” with ongoing capital investment in municipal infrastructure.

- What is the recent increase in water/wastewater and electrical rates?

Response: See Exhibits D and E.

- Additional City concerns.

Response: The City and KPU are seeing the early signs of outward migration due to the COVID-19 pandemic. Individuals have left or are leaving town and some businesses have cancelled utility accounts in anticipation of closing. Although it is too early to project with any certainty the loss of population and commerce, the City is concerned that the cancellation of major cruise in 2021 will result in some degree of out migration similar to what was experienced in 1997 following the closure of the Ketchikan Pulp Mill.

Assuming cruise resumes in 2022, it will likely be a phased effort over multiple years due to COVID-19 protocols. Even if cruise were to fully return to southeast Alaska in 2022, the City anticipates that roughly a quarter of its previous traffic will be lost from downtown to Ward Cove. This will have an immediate impact on Port revenues, which could further delay facility maintenance and expansion efforts. The City previously projected annual losses of \$2,011,879 in passenger wharfage fees and \$432,940 in dockage fees.

While passengers from Ward Cove will likely want to go downtown during Ward Cove’s early years of operation, this will likely diminish as the destination builds out additional retail and tour venues. The loss of passengers and associated commerce likewise will have an adverse impact on downtown sales tax revenues and will adversely affect the City’s ability to maintain current service levels and infrastructure investment.

Should you have any questions on this matter, please do not hesitate to contact me.

Very truly yours,



Karl R. Amylon
City Manager

cc: Mayor Sivertsen and Councilmembers
Lacey Simpson, Assistant City Manager
Mark Hilson, Acting Port & Harbors Director
Michelle Johansen, Finance Director
Kim Stanker, City Clerk