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MEMORANDUM

To: Karl Amylon, City Manager

From: Steve Corporon, Port & Harbors Director

Date: August 21, 2019

Re: **Ordinance 19-1902 Amending Port Fees and Charges**

As directed a review of all port fees and charges currently included in the municipal code has been completed and the initial recommendations have been reviewed by the Port and Harbors Advisory Board (PHAB). The attached draft Ordinance No. 19-1902 contains all of the changes I am recommending at this time. The following are summaries of the various port fees and charges with supporting information including the last time each particular rate was raised along with some observations and recommendations. Annotated copies of the corresponding sections of code are also attached for additional reference. All of the cumulative rates of inflation used in the analysis were obtained at usinflationcalculator.com which was recommended by the Finance Department. For rates recommended to be increased in 2020 an additional 2% was added to account for inflation between now and the start of the 2020 season. For rates increases recommended to be delayed until the start of 2021 an additional 2% (for a total of 4%) was added to account for inflation between now and the start of the 2021 season. Cruise lines typically set their prices a year in advance; therefore, approving a rate increase in late September of 2019 would not provide them adequate notice for 2020.

Dockage: This is the fee charged to moor a vessel at the port for up to 24 hours. It is charged per day per foot of vessel length and is a sliding scale based on length of stay and vessel length with the longer vessels paying higher rates per foot. The rates for vessels less than 150 feet were last changed in February 2016 when they were increased to be comparable to the rates charged by the City's small boat harbors. The rates for vessels 150 feet and longer were last changed in March of 1991; however, in January of 2004 a provision was added to the code to charge passenger vessels 5% more than the standard rate. For vessels 700 feet and longer the rate is currently $2.42/ft plus 5% which equates to $2.54/ft. If this was adjusted using the cumulative rate of inflation of 88.1% from 1991 to 2019 plus an additional 4% for 2019 to 2021 the rate would be $4.88. I recommended raising all of the rates to take effect in 2021 based on the cumulative rate of inflation in a similar manner. I also recommended including language in the code to provide for an automatic annual rate increase based on the CPI for these rates beyond 2021. I also recommended expanding the scale beyond 700+ to create separate categories for larger vessels such as 700-970, 970-1050 and 1050+ using the same percentage difference of 14.5% between the current top ranges to separate the proposed new ranges. I believe this is warranted as these neo-panamax vessels are impacting the facilities in increased wear and tear compared to panamax and smaller vessels. The PHAB voted 7-2 to recommend raising the dockage rates as proposed and also raise the rates for vessels less than 150 feet by the CRI for 2016-2019 (6.9%) plus 4% for 2019-2021 for a total of 10.9%.

Dockage 30-Day Flat Rate: This fee is charged off-season for vessels less than 400 feet wintering at the port. These rates were last changed in March 1991. The cumulative rate of inflation from 1991 to 2019 is 88.1%. I recommended raising all of the rates based on the cumulative rate of inflation plus an additional 2% and have the new rates take effect in 2020. I also recommended including language in the code to provide for an automatic annual rate increase based on the CPI for these rates beyond 2020. The PHAB voted 8-1 in favor of raising the dockage 30-day flat rates as proposed.

Promotional Dockage: These dockage rates were established in October 1998 and are similar to the 30-day off-season flat rates but have more restrictions. They have not been used in over 10 years and have not been updated since they were established in 1998. The cumulative rate of inflation from 1998 to 2019 is 57.1%. I recommended removing these fees from the code. The PHAB voted 9-0 in favor of removing the promotional dockage rates as proposed.

Lightering: This fee is charged for cruise ships lightering passengers to the dock. It is charged per cruise ship per day, not per lightering vessel. The current charge of $280/day was last changed in January 2004. If this was adjusted using the cumulative rate of inflation of 35.6% from 2004 to 2019 plus 4% for 2019 to 2021 the fee would be $390/day. I recommended raising the rates based on the cumulative rate of inflation plus 4% and have the new rate take effect in 2021. I also recommended including language in the code to provide for an automatic annual rate increase based on the CPI for these rates beyond 2021. The PHAB voted 8-1 in favor of raising the lightering fee as proposed.

Wharfage: These fees are charged for cargo that is loaded or unloaded on the port. It does not apply to stores, supplies or baggage for use by the vessel. Since the port is not set up for or capable of handling cargo these rates have not changed since October 1985. The cumulative rate of inflation from 1991 to 2019 is 138.1%. I recommended removing these fees from the code. The PHAB voted 9-0 in favor of removing the wharfage rates as proposed.

Port Development: Although not specifically called a port development fee in the code, it states the fee shall be dedicated for the design and construction of mooring facilities, which is what other ports often call a port development fee. It is based on the length of the vessel and is charged for cruise ships using the port from May 1 – Sep 30. It applies to cargo ships as well but as mentioned in the paragraph on wharfage, the port does not handle cargo vessels. The current rates were established in April 1999 and are $1.25/ft for vessels less than 500 feet and $1.90/ft for vessels 500 feet and longer. If these were adjusted using the cumulative rate of inflation of 53.7% from 1999 to 2019 plus an additional 4% for 2019 to 2021 the rates would be $1.97/ft and $3.00 respectively. I recommended raising these rates based on the cumulative rate of inflation plus 4% and having the new rates take effect in 2021. I also recommended including language in the code to provide for an automatic annual rate increase based on the CPI for these rates beyond 2021. The PHAB voted 7-2 in favor of raising the port development fees as proposed. The PHAB further recommended changing the dates for charging the port development fees to include the period April 15 through October 15. Currently the fees are charged from May 1 through September 30. The PHAB vote on the date changes was 9-0.

Passenger Wharfage: This fee is also commonly called the head tax. It was established in January 2004 at the rate of $4.00 per passenger for ships docked at City owned docks and $2.00 per passenger for vessels lightering to City owned docks or privately owned docks within the City. In May 2005 those two rates were raised to $6.00 and $4.00 respectively and a $4.00 per passenger charge was also implemented for ships docking at privately owned docks within the City. In January 2007 the passenger wharfage rate was raised by $1.00 to the current level of $7.00 and it was expanded to include ships docking at facilities leased by the City. The $4.00 per passenger fee for lightering and ships docking at privately owned facilities not leased by the

City remained the same. The $1.00 increase in 2007 had a sunset clause that has been re-approved by the City Council on several occasions, most recently in 2016. It will expire this year unless reviewed by the Council no later than October 1, 2019. If the passenger wharfage fee of $7.00 was adjusted using the cumulative rate of inflation of 23.5% from 2007 to 2019 plus an additional 4% for 2019 to 2020 the fee would be $8.93. If the passenger wharfage fee for lightering and passengers on ships docking at private docks of $4.00 was adjusted using the cumulative rate of inflation of 35.6% from 2004 to 2019 plus an additional 4% for 2019 to 2021 the fee would be $5.58. I recommended raising the passenger wharfage fees to $9.00 and $6.00 per passenger respectively to take effect in 2021. I also recommended including language in the code at that time to provide for an automatic annual rate increase based on the CPI. I further recommended the City Council pass an ordinance this September removing the sunset provision of the additional $1 increase from $6 to $7. It should be noted that the City's port expansion consultant has advised that once a port expansion plan is agreed upon the passenger wharfage fee will likely have to be increased further into the range of $15 beyond 2021. The PHAB voted 9-0 to recommend removing the sunset provision from the code. The PHAB then voted 6-3 to recommend directing the City Attorney "to investigate if charging by the foot is more advantageous to the City" in lieu of raising the passenger wharfage fees. I do not agree with this recommendation and have drafted the ordinance to reflect a recommendation to increase the passenger wharfage fees.

Port Access Pass: A port access pass is required for vehicles conducting business on the port such as buses, vans, fuel trucks, delivery trucks, etc. Vehicles up to 20 feet and service vehicles are charged $30/month. Vehicles between 20 and 30 feet are charged $50/month. Vehicles over 30 feet are charged $125/month. These rates were last changed in March 2001. It is interesting to note that they when they were established in 1991 the rates were $75/month for vehicles under 30 feet and $200/month for vehicles 30 feet and longer. If the current rates were adjusted using the cumulative rate of inflation of 44.7% from 2001 to 2019 plus 2% for 2019 to 2020 the rates would be $44.01, $73.35 and $183.38 per month respectively. I recommended raising the rates to $45.00, $75.00 and $200.00 respectively to take effect in 2020. I also recommended establishing a seasonal rate equivalent to 20% lower than the monthly rate times the number of months remaining in the season to encourage operators to purchase a seasonal pass. The PHAB voted 9-0 in favor of raising the port access pass fees as proposed and including a provision that in order to obtain a pass, businesses must be current on sales tax payments.

Port Loading Zone Permit: A port loading zone permit is required for tour vessels, charter vessels, etc. to moor at Daly Float, and the tendering floats at Berths 3 and 4 to load and unload passengers. The charge is based on the length of the vessel and the current rate of $2.50/ft/month was established in July 1994. A lesser rate of $1.25/ft/month was established in April 1997 for small vessels with a beam of less than 4 feet and powered only by oars or paddles. No one has applied for a permit at the lower rate in recent memory. If the original rate was adjusted using the cumulative rate of inflation of 72.8% from 1994 to 2019 plus 2% for 2019 to 2020 the rate would be $4.37/ft/month. I recommended rounding down to an even $4.00/ft/month and establishing a seasonal rate equivalent to 20% lower than the monthly rate times the number of months remaining in the season to encourage operators to purchase a seasonal pass. The PHAB voted 9-0 in favor of raising the port loading zone permit fees as proposed and including a provision that in order to obtain a permit, businesses must be current on sales tax payments.

Potable Water: Vessels loading potable pay a flat fee based on the length of the vessel. Under the current arrangement 75% of the gross revenue is credited to KPU and 25% to the Port. The fee for the largest vessel category of 900-1,000 feet in length is currently $840/day. In 2018 this equated to fee of $4.87/1000 gal. These fees where last raised in March 2018 to ensure KPU would continue to turn a profit on sales to cruise ships. KPU's cost to produce

water in 2018 was approximately $3.20/1000. I recommended no additional increases at this time. The PHAB voted 9-0 in favor of not recommending any increases to the potable water fees at this time.

Waste Water: A waste water rate was established in March 2018 in order to accommodate emergency situations when vessels needed to off load waste water when they did not have the ability or capacity to adequately treat or hold it on their own. This does not normally occur with large cruise ships. It was most recently used during the visit of a U.S. Navy vessel this past winter. The current fee is $150/day plus $100 per 1,000 gallons. The $150/day is intended to cover any testing and administrative costs incurred by the Waste Water Division of Public Works as they determined whether to accept the waste water or not. They have recently agreed to accept the waste water from a local tour vessel as long as they pump several times a week rather than letting the effluent go septic. As such it was recommended that the code be amended to allow the Public Works Director to waive the $150/day fee on a case by case basis. The PHAB voted 9-0 in favor of this recommendation.

Review of Comparable Rates/Fees: The only comparable rates of interest are for the two public cruise ship docks in Juneau but even those are not easily comparable. For example their dockage fee of $3.00/ft is similar but they also add on a maintenance fee of $0.055/net ton displacement. Their passenger fee is only $5.00/passenger but their port development fee is an additional $3.00/passenger. Their lightering fee is $600. In lieu of a port loading zone permit for tour and charter vessels using the public docks they have an annual fee plus a daily passenger fee. Inspected vessels pay $500/year plus $1.50/passenger daily. Uninspected vessels pay $150/year plus $1.50/passenger daily. In lieu of a monthly port access permit for vehicles they charge an annual fee of $400 per company plus $9.00/passenger seat. Their potable water fee is currently $5.00/1000.

Summary of Recommendations: All of the recommended changes included in draft ordinance 19-1902 reflect the recommendations approved by the PHAB with two exceptions. The PHAB did not vote to recommend increasing the passenger wharfage fees. They voted to recommend directing the City Attorney "to investigate if charging by the foot is more advantageous to the City". In a subsequent discussion with the City Attorney he advised me that since all port revenues are deposited in the Port Enterprise Fund he did not see any advantage to increasing fees that are charged by the foot such as dockage as opposed to by the passenger such as passenger wharfage. There was some discussion during the PHAB meeting of splitting the increases into several smaller increases over three or five years but there were no recommendations along those lines approved. The other exception was the recommendation to insert language into the municipal code to provide for an automatic annual rate increase for some of the fees based on the CPI beyond the effective dates included in the ordinance. In speaking with the Clerks and upon further review it appears that adding such language could be confusing; therefore, my new recommendation is to review the fees and charges annually with the intent to raise them annually by an appropriate CPI but not insert such language into the municipal code.

Projected Impact on Port Revenues: The majority of the port revenues are generated by just three of the fees: Passenger Wharfage, Dockage and Port Development. Since the recommendation is to implement fee increases for these three effective April 1, 2021, it is difficult to predict what the total impact will be due to the uncertainty of how many vessels may be calling in Ward Cove instead of the City's facilities by then. Below are estimates based on the actual revenues for 2018 adjusted for 2021 using the proposed increases under two scenarios. The first assumes all passengers will continue to call on the City's facilities. The second assumes all of the NCL and their affiliate lines will call on Ward Cove. Both assume 1.3M passengers in 2021.

Revenue Category	2018 Actual	2021 (all City)	2021 (NCL @ WC)
Passenger Wharfage	$7,300,575	$11,700,000	$9,000,000
Dockage	$1,106,356	$2,220,000	$1,700,000
Port Development	$807,113	$1,273,000	$975,000
Total	$9,214,044	$15,193,000	$11,675,000

Recommended Motion: I move the City Council approve in first reading Ordinance No. 19-1902 amending Ketchikan Municipal Code section 13.08.100; subsections 13.08.125(b) and 13.08.155(a); sections 13.08.185 and 13.10.030 to increase charges for port use; repealing sections 13.08.101; 13.08.110; 13.08.120 and subsection 13.08.125(e); and establishing effective dates.