



Municipality of Anchorage

**Port of Alaska
Modernization Program
(PAMP)**

**Surcharge Concept
(Repayment of Port Debt
for the PAMP)**

**Port of Alaska User Group
Question & Answer Discussion**

January 12, 2023

11:00 am

Introduction

This Question and Answer presentation is solely regarding the Surcharge Concept

- **Surcharge Concept**
 - **Concept**
 - **Calculation**
 - **Amount**
- **Tariff Questions**
 - **Tariff Questions not related to the Surcharge Concept should be directed to the appropriate Port Staff Member**

Question 1

- **How would the Surcharge Concept change the current “deal” for the Petroleum /Cement Users?**
- Response
 - We understand your question to be related to the rate design currently in place. Under this assumption petroleum and cement rates are recalculated to remove debt service cost (resulting in a material reduction in rates for petroleum and cement). As proposed, debt service costs are recovered as a surcharge rate element in proposed Tariff 10.0.
- **Does Tariff 10.0 essentially reverse the Port Commission’s prior adoption of Tariff 9.0?**
- Response
 - Tariff 9.0 was replaced by Tariff 9.1 in 2022 and only changed items in Section 1, Rules and Regulations.
 - Tariff 10.0 will replace Tariff 9.1 in entirety, if adopted by the Municipal Assembly and only impacts Items 254 and 260 and adds a new Item Number 272. These changes are related to the implementation of the proposed Surcharge.

Question 2

- **Prior tariff proposals have come with extensive financial-modeling information (usually presented by Parrish Blessing, the Port's usual contractor); what financial-modeling was done to support Tariff 10.0?**
- Response
 - The Municipality's Public Finance Staff, with the assistance of our Municipal Advisor Staff and Parrish Blessing Staff, has developed a business model for the sole purpose of the Surcharge Concept and the calculation of the Surcharge.
- **Can it be provided to us?**
- Response
 - Yes, the results of the model will be added to the Port's website, shortly.
 - The Municipality's Public Finance Staff, with the assistance of our Municipal Advisor Staff and Parrish Blessing Staff, has developed a business model for the purpose of the Surcharge Concept and the calculation of the Surcharge. We are happy to discuss some of the basic underlying concepts and calculations that are included in the model.

Question 3

- **Has Parrish Blessing completed an analysis of the “surcharge concept”**
- Response
 - Yes.
- **.... and can we hear from them?**
- Response
 - Public Finance Staff members work together with Parrish Blessing Staff regarding the Port. We have provided the Model to Parrish Blessing Staff, and in fact they helped create the model.
 - If you would like to meet with the Parrish Blessing Staff, please contact Deputy Municipal Manager Ms. Kolby Hickel.

Question 4

- **Why does the presentation model a surcharge for only \$130 or \$84 million in borrowing, and not the total amount needed to complete the PAMP?**
- Response
 - The Surcharge calculation is based upon \$19 million of Series A Bonds sold in 2020 and \$65 million of debt expected to be issued in the near term, all for the PCT 1 and Cargo Terminal Replacement, for a total of \$84 million.
 - The PAMP is a multi-year capital project, and although it is unknown at this time how much debt will be required for the PAMP, we have made certain assumptions when debt will be issued and the impact on surcharge rates.
 - There is a reasonable expectation that the Municipality may continue to receive state and federal grants, as well as low interest rate federal loans, for the PAMP.
 - Hence, it would not be financially prudent to sell debt for an unknown future cost that may be paid for with a grant.
 - The amount of the Surcharge will be evaluated every year to accommodate any new debt issued.
 - The debt service for the \$45 million of Series B Bonds sold in 2020 will continue to be paid by revenues collected in the baseline tariff.
- **If the Port has a current funding gap of approximately \$1 billion, would the Port ultimately need to impose “commodity surcharges” that are significantly higher than what has been shown in the presentation so far?**
- Response
 - The “funding gap” will be accommodated for by State of Alaska grants, federal grants, federal low cost (low interest rate) borrowing programs and lastly, debt sold in the capital marketplace.
 - The amount of the Surcharge will change as new debt is issued.
- **If so, what would those figures be?**
- Response
 - The current “funding gap” is expected to close over time due to grant receipts and hence, the amount of future “commodity surcharges”, if any, are unknown at this time.

Question 5

- **To the extent that the Surcharge is designed to allow the Port to finance additional debt in 2023, what is the new debt intended to pay for?**
- Response
 - Replacement of the Cargo Docks.



Question 6

- **What would the projected surcharges be for years 2030-2035?**
- Response
 - Future Surcharges are unknown at this time.
 - The amount of the Surcharge will be evaluated every year.
 - For the purpose of Tariff 10.0 we have made certain assumptions regarding future rate changes identified in the next few pages.

Question 7

- It appears that, in addition to the surcharge, there would also be an additional “tariff” sufficient to cover 18% of PAMP costs (for the new administrative building, north end stabilization, and terminal 3 demolition); what is the magnitude of that tariff for each user?
- Response
 - Future Tariff rate adjustments due to PAMP debt allocated to the 18% costs (for the new administrative building, north end stabilization, and terminal 3 demolition) that all Port Users are responsible for, will be evaluated annually.
- **and when would it be implemented?**
- Response
 - When debt is incurred,
 - The timing of which is unknown at this time.

Question 8

- **How would all Port fees (surcharge+tariff) change for all users over the next ten years?**
- Response
 - That is an extremely broad question the response to which is unknown at this time.
 - The amount of the Surcharge will be evaluated every year.
 - The tariff is also evaluated every year.
 - For the purpose of Tariff 10.0 we have made certain assumptions regarding future rate changes identified in the next few pages.

Question 9

- Can the Administration develop a table that shows clearly how the surcharge concept would differ on an all-in, year-over-year basis from what is on the books now?
- Response
 - Yes.
 - Changes to Terminal Tariff 9.1 – Item Number 254 (Wharfage Rates in Cents)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|------|------|------|------------|------------|------------|------------|------------|------------|------------|
| CEMENT, Natural or Portland; Drillers Mud; Fireclay; Lime, slaked; Lime, hydrated or quick; Plaster; Magnesite; Gypsum; Sand; Stucco; separate or combined in bulk through hoses to or from mobile bulk carriers | 567 | 589 | 607 | 625 | 644 | 664 | 684 | 704 | 704 | 704 |
| Bulk Cement – Super Sacks, per Ton | 567 | 589 | 607 | 625 | 644 | 664 | 684 | 704 | 704 | 704 |
| In bulk through pipelines to or from shoreside storage tanks | 207 | 257 | 290 | 328 191 | 370 196 | 418 202 | 472 208 | 513 215 | 542 215 | 573 215 |



Question 9

- Can the Administration develop a table that shows clearly how the surcharge concept would differ on an all-in, year-over-year basis from what is on the books now?
- Response
 - Yes.
 - Changes to Terminal Tariff 9.1 – Item Number 260 (Wharfage Rates in Cents)

2020 2021 2022 2023 2024 2025 2026 2027 2028 2029

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|--|-------|-------|-------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| PETROLEUM OR PETROLEUM PRODUCTS, Viz: | | | | | | | | | | |
| INBOUND/OUTBOUND | | | | | | | | | | |
| Liquids, Petroleum or Petroleum Products, N.O.S., in bulk, discharged or loaded direct from or to vessels' tanks to or from storage tanks, per bbl. (Subject to Note 1) | 20.33 | 25.26 | 28.53 | 32.22 18.74 | 36.40 19.31 | 41.11 19.89 | 46.43 20.49 | 50.45 21.10 | 53.29 21.10 | 56.30 21.10 |



Question 9

- Can the Administration develop a table that shows clearly how the surcharge concept would differ on an all-in, year-over-year basis from what is on the books now?
- Response
 - Yes.
 - Terminal Tariff - New Item Number 272

| PORT OF ALASKA MODERNIZATION PROGRAM | RATES | | | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | |
| Port of Alaska will assess a surcharge fee in order to cover expenses incurred for the modernization program. | | | | | | | | | | | |
| PORT MODERNIZATION SURCHARGE FEES | | | | | | | | | | | |
| CARGO VESSELS | | | | | | | | | | | |
| Notwithstanding any other schedule of charges, the Port of Alaska shall assess a modernization surcharge per ton for all commodities crossing the Port of Alaska facilities. | \$0.00 | \$0.00 | \$0.00 | \$3.40 | \$3.40 | \$3.40 | \$3.40 | \$3.40 | \$3.40 | \$3.40 | \$3.40 |



Question 9

- Can the Administration develop a table that shows clearly how the surcharge concept would differ on an all-in, year-over-year basis from what is on the books now?
- Response
 - Yes.
 - Terminal Tariff - New Item Number 272

| PORT OF ALASKA MODERNIZATION PROGRAM | RATES | | | | | | | | | |
|---|--------|--------|--------|----------|----------|----------|----------|----------|----------|----------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| CEMENT VESSELS Not withstanding any other schedule of charges, the Port of Alaska shall assess a modernization surcharge fee per ton for all cement commodities crossing the Port of Alaska facilities. | \$0.00 | \$0.00 | \$0.00 | \$0.91 | \$0.91 | \$0.91 | \$0.91 | \$0.91 | \$0.91 | \$0.91 |
| PETROLEUM VESSELS Not withstanding any other schedule of charges, the Port of Alaska shall assess a modernization surcharge fee per barrel for all commodities crossing the Port of Alaska facilities. | \$0.00 | \$0.00 | \$0.00 | \$0.1285 | \$0.1285 | \$0.1285 | \$0.1285 | \$0.1285 | \$0.1285 | \$0.1285 |



Question 10

- **The recent presentation depicts Phase III of the Modernization Program as entailing the construction of a \$184 million second “Petroleum Terminal”. We would like clarification what petroleum infrastructure required during construction and as part of the finished (Second terminal, Temporary facilities, etc.) is included in these estimated costs.**
- **Response**
 - That is an engineering design question that Jacobs will respond to.
- **How is inflation considered in these calculations for this number?**
- **Response**
 - All construction costs are provided by Jacobs as of October 2022 and use ‘mid-point of construction’ escalation figures which include inflation.
 - Further questions regarding this subject should be directed to the appropriate Port Staff member.

Question 11

- Can the Administration share the draft plan of finance it said at the September 28 meeting that it has developed, to show how the “surcharge concept” could fit into the overall financing needs for the Modernization program?
- Response
 - Yes.
 - The version of the Plan of Finance dated January 12, 2023, will be posted on the Port’s website, shortly.
 - All prior versions of the Plan of Finance should be disregarded.

Question 12

- **The Municipality's financial advisor mentioned at the last Port Commission that the Municipality may pursue financing for the PAMP from the United States Department of Transportation's "Transportation Infrastructure Financing and Innovation Act" (TIFIA) program. What deadlines are associated with applying to the TIFIA program?**
- Response
 - There are no specific deadlines. An interested applicant may apply anytime. We are currently in the process of preparing a TIFIA Loan application at this time and we are communicating with the appropriate DOT Staff members.
- **What level of surcharge does DOT require the Municipality to have in place before it will make a TIFIA loan?**
- Response
 - The surcharge is calculated to produce revenues equal to 1.35 times debt service. The Municipality must demonstrate the ability and the willingness to implement and impose a surcharge without additional governmental approvals. More importantly, the DOT Staff will want to see that the Municipality has already implemented a surcharge to pay the debt service on a TIFIA Loan, which is currently not the case.

Question 13

- **The “surcharge concept” presented to the Port Commission appears to have been based on an Excel model. Can the Port Users obtain a copy of the Excel-model files used to develop the surcharge concept?**
- Response
 - Yes, the results of the model will be added to the Port’s website, shortly.
 - The Municipality’s Public Finance Staff, with the assistance of our Municipal Advisor Staff and Parrish Blessing Staff, has developed a business model for the purpose of the Surcharge Concept and the calculation of the Surcharge. We are happy to discuss some of the basic underlying concepts and calculations that are included in the model.

Question 14

- **Revenue collected from petroleum tariffs have been over budget for several years now. We would like to know what the policy in regarding variances such as these and the impact it will have on future tariff rates.**
- Response
 - Currently, if there are annual positive budget variances those funds are retained by the Port as fund balance.
 - The revenue requirement model forecasts revenues through the forecast period (2029) and positive revenue variances will result in lower tariff rates while negative variances will result in higher tariff rates and will be reviewed annually.
 - Further questions regarding this subject should be directed to the appropriate Port Staff member.
 - Funds collected by the Surcharge will be proposed to the Municipal Assembly to be restricted in use for only three uses:
 - 1 Payment of debt service on debt outstanding for the Port.
 - 2 Funds not required for debt service on Port debt would be deposited into a Port of Alaska Reconstruction Investment Fund (RIF) to be used for rebuilding the Port in 50 - 75 years.
 - 3 Funds in the Port of Alaska RIF could be used to rebuild any part of the Port damaged in a catastrophic event that may occur after the PAMP is complete and prior to the need to rebuild the Port.

Question 15

- **Past discussions with the POA and Jacobs have included the request for a website showing the status of the PAMP. We would like to know when this site will be active.**
- Response
 - The status of the PAMP on the Port of Alaska website is being updated and the Port Staff will notify the co-chairs of the PAUG when that has been accomplished.

The Surcharge Calculation

The Surcharge Calculation includes the following main components

- **Current debt service for the 2020 Series A Bonds, known amounts.**
- **Forecasted debt service for debt issued in the near term, these amounts are based upon the current interest rate environment.**
- **Port of Alaska User Liability Calculation, this is a known liability share that is calculated each time there is an update to the cost of construction of the individual Phases of the PAMP.**
- **1.35 Times Debt Service Coverage Ratio, this is a known ratio based upon rating agency criteria and investor expectations.**

The Surcharge Amount

The proposed Surcharge amounts are as follows:

| | |
|------------------------|----------------------------|
| Cement Users | \$0.91 per ton |
| Petroleum Users | \$0.1285 per barrel |
| Cargo Users | \$3.40 per ton |

As more debt is incurred for the Cargo Docks Replacement, the amount of the Surcharges will change.

The amount of the Surcharge will be evaluated every year to accommodate any new debt issued.

Conclusion

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

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 consistent with the Municipality's prior practice to support usage pricing and operations

The amount of the Surcharge will be reviewed annually

This Surcharge Concept is a fair, transparent, equitable and legally defensible Concept