

CITY OF UNALASKA  
UNALASKA, ALASKA

RESOLUTION 2019-08

A RESOLUTION OF THE UNALASKA CITY COUNCIL AUTHORIZING THE CITY MANAGER TO ENTER INTO AN AGREEMENT WITH THE FINANCIAL ENGINEERING COMPANY FOR PROFESSIONAL SERVICES TO ANALYZE THE UNALASKA MARINE CENTER TARIFF AND CONTRACT RATES, IN AN AMOUNT NOT TO EXCEED \$22,090

WHEREAS, the City of Unalaska desires to negotiate Terminal Services Agreements for the Unalaska Marine Center; and

WHEREAS, the City of Unalaska desires to understand the revenues required to manage the Unalaska Marine Center operations, maintenance, and debt service; and

WHEREAS, the Financial Engineering Company completed the last economic rate work for the Port in the form of a Cost Benefit Analysis for the financing of the Unalaska Marine Center; and

WHEREAS, the Unalaska City Council would like an updated rate analysis and rate design for anchor tenants; and

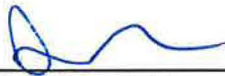
WHEREAS, a rate analysis will allow the City of Unalaska and the Port of Dutch Harbor to negotiate rates for Terminal Services that meet the requirements of debt service and operations and maintenance; and

WHEREAS, the Financial Engineering Company is a reputable consulting company that has previously conducted rate analysis for the City of Unalaska; and

WHEREAS, the City of Unalaska has negotiated a fair rate for the service of the UMC rate analysis.

NOW THEREFORE BE IT RESOLVED that the Unalaska City Council authorizes the City Manager to enter into an agreement with the Financial Engineering Company for professional services to analyze the Unalaska Marine Center Tariff and Contract rates in an amount not to exceed \$22,090.

PASSED AND ADOPTED by a duly constituted quorum of the Unalaska City Council on February 12, 2019.



Dennis M. Robinson  
Vice Mayor

ATTEST:



Marjie Veeder  
City Clerk



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## MEMORANDUM TO COUNCIL

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To: Mayor and City Council Members  
From: Peggy McLaughlin, Port Director  
Through: Thomas E. Thomas, City Manager  
Date: February 12, 2019  
Re: Resolution 2019-08, authorizing the City Manager to enter into an agreement with the Financial Engineering Company for professional services to analyze the Unalaska Marine Center Tariff and Contract Rates, in an amount not to exceed \$22,090

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**SUMMARY:** The adoption of Resolution 2019-08 will authorize the City Manager to enter into an agreement with Mike Hubbard from Financial Engineering Company for a rate analysis at the Unalaska Marine Center (UMC). This will identify a rate design for tariff and for customers with Terminal Services Agreements. The amount of this contract is not to exceed \$22,090.

**PREVIOUS COUNCIL ACTION:** No formal Council action has been taken on this issue.

**BACKGROUND:** The UMC Replacement Project is substantially complete, and the Port Department has begun the initial process of soliciting proposals for Terminal Services Agreements. A financial analysis has been requested to determine the best rates for customers and for debt service obligation.

**DISCUSSION:** With the completion of the UMC Project, the Port Department is ready to move forward with proposals for Terminal Services Agreements. In order to negotiate the best possible rates for both the City and any potential anchor tenants, an analysis of current rates, vessel traffic, and volume is required to understand the minimum thresholds for established rates and possibly reduction of contract rates based on activity.

The Port received a quote from The Financial Engineering Company (FEC) that provides a reasonable scope of work for gathering information, analyzing, and presenting the findings to Council and the public. Mike Hubbard of FEC provided the last review for the Cost Benefit Analysis for City's 2016 Tiger Grant application. Mr. Hubbard is familiar with Port rates and City of Unalaska processes, as well as with the management of debt service by rates.

Attached is FEC's proposal for Council review, which clearly outlines his process of establishing baseline rates and "rate designs" that could be implemented for anchor tenants. I am confident of his approach and that his analysis will provide the information that Council will need to take action to implement rates for customers with Terminal Services Agreements. This agreement would be paid for by the Port.

**ALTERNATIVES:**

- 1) Council could fully support Resolution 2019-08; or
- 2) Council could choose to not support Resolution 2019-08 as written; or
- 3) Council could recommend additional resources for a rate analysis

**FINANCIAL IMPLICATIONS:** This resolution will obligate the City to no more than \$22,090 to be paid for by the Port.

**LEGAL:** Not applicable.

**STAFF RECOMMENDATION:** Staff recommends approving this Resolution.

**PROPOSED MOTION:** I move to adopt Resolution 2019-08.

**CITY MANAGER'S COMMENTS:** I recommend adoption of Resolution 2019-08.

**ATTACHMENT:** Proposal from Financial Engineering Company

January 28, 2019

Ms. Peggy McLaughlin, Director  
Department of Ports and Harbors  
City of Unalaska  
PO Box 610  
Unalaska, Alaska 99685

Dear Ms. McLaughlin:

**Subject:** Proposal – UCM Rate Analysis

At your request, I have developed a proposal and budget estimate to perform rate work for the Unalaska Marine Center (“UMC”). With approximately \$30 million of the expansion and renovation costs of the UMC financed by debt, rates must be set to recover the additional costs. Too high of rates, however, run the risk of losing anchor tenants and commerce in general. As such, the City has requested this proposal to evaluate rate options for the UMC.

#### PROJECT SCOPE

The analysis will start by a review of the UMC cost structure which includes debt service, depreciation, operating costs, maintenance costs, and other miscellaneous costs. The majority of these costs are fixed in nature and are not dependent on volume. The costs will be identified as directly attributable to the UMC (debt service, depreciation, operations, etc.) and those that are allocated among the five separate Port facilities (administration, etc.) Direct costs might also include payments to the City for contributions in aid of construction.

Once the costs are determined, existing revenue streams will be reviewed and summarized. Revenues are collected through a set of rates and fees for docking/moorage, wharfage, rental fees, and utility fees. Revenues will be identified by type as well as the carrier paying the fee.

Adequacy of revenues will then be investigated to determine if existing fees are expected to recover the direct and indirect costs. A baseline will then be developed by calculating a single percentage adjustment required to be applied to all fees to recover the revenue requirements. A sensitivity analysis will be part of this baseline investigation to determine how sensitive the resulting adjustment is when based on alternative volumes and usage at the UMC.

Following the baseline analysis, a rate design study will be performed to investigate specific rate designs that could be implemented for anchor tenants to encourage volume increases.

Similar to incentive rates for electric utilities, these rates or contracts must be designed to ensure that reduced rates are applied to actual volume increases and not the shifting of volumes or loads. These risks will be considered and evaluated when developing proposed rate structures.

A written report of the analysis and findings will be prepared, followed by a meeting and presentation to the City Council.

## BUDGET

The following budget has been prepared for the work. The budget is based on a single trip to Unalaska when the presentation to the City Council would take place. An initial site visit to gather data and discuss the project with Port personnel might result in a better flow of information and better understanding of issues and concerns of the City. This initial site visit is included as an option in the budget.

	Labor		Expenses	Total
	Hours	Cost		
Data Gathering, Review of Data	8	\$ 1,640		
Cost Structure	12	2,460		
Baseline Revenues	16	3,280		
Adequacy of Revenues	4	820		
Rate Design	16	3,280		
Report, Presentation	20	4,100		
Trip Expenses				
Air Fare (RKD - ANC)			800	
Air Fare (ANC - DUT)			1,000	
Hotel (DUT - 2 nights)			300	
Hotel (ANC)			125	
Meals			150	
	76	15,580	2,375	17,955
Optional Initial Trip				
Labor	12	2,460		
Trip Expenses				
Air Fare (RKD - ANC)			400	
Air Fare (ANC - DUT)			1,000	
Hotel (DUT - 1 night)			150	
Hotel (ANC)			125	
	12	2,460	1,675	4,135

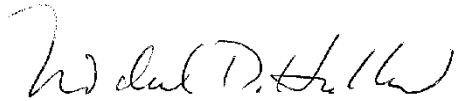
All additional expenses incurred due to weathered-in/out will be billed at cost. No labor will be billed due to weather.

All labor billed at \$205/hour.

Peggy, thank you for asking me for this proposal. If you have any questions, please do not hesitate to contact me.

Very truly yours,

THE FINANCIAL ENGINEERING COMPANY

A handwritten signature in black ink, appearing to read "Michael D. Hubbard". The signature is written in a cursive style with a large initial "M" and a distinct "H".

Michael D. Hubbard