



# KETCHIKAN GATEWAY BOROUGH

1900 First Avenue Ste 210 • KETCHIKAN, ALASKA 99901

• 907/228-6625 • fax 907/228-6684

[www.kgbak.us](http://www.kgbak.us)

OFFICE OF THE BOROUGH MANAGER

---

---

## MEMORANDUM

---

---

TO: MAYOR DIAL AND ASSEMBLY MEMBERS  
FROM: RUBEN DURAN, BOROUGH MANAGER  
SUBJECT: ECONOMIC INFORMATION REQUESTED BY MAYOR DIAL  
DATE: 04/16/2021

Attached is the staff response to an information inquiry by the Mayor. The information from staff is in italics to aid in reading. Supplemental information is also attached to the document.

Responses are based upon the information available at the time of the writing and should not be relied upon in future as many aspects of the review are subject to change.

Responses and exhibits from the City of Ketchikan to the inquiry by the Mayor are included, following this memo.

### **Borough:**

- **Total deficit this year in the Local Education Fund (LEF)**

Response: *Approximately \$968,638*

- **Estimated deficit next year in the Local Education Fund (LEF)**

Response: *Approximately \$799,548 as of 4/12/2021 after Assembly School Board Liaison Meeting*

- **Property tax increase required to address the LEF deficit, e.g. mill rate increase and what percentage increase that represents. I know that staff is recommending a phased increase, so information on that would be helpful.**

Response: *The FY 2022 deficit (as of 4/12/2021) is the equivalent of 0.51 mills areawide property tax*

- **Total deficit in each other fund in deficit mode and mill rate and what % increase that represents to balance the fund.**

Response: *All of the governmental funds show a deficit this year, although each of them also has at least a minimal fund balance reserve. The Governmental Funds are the General Fund, Land Trust, Commercial Passenger Vessel (CPV), Library, LEF, (Recreation Capital Improvement Plan (REC CIP) & School Bond CIP. The total deficit is approximately \$6.4 million. This is approximately 4.1 - 4.2 property tax mills.*

- **Do we have any capital projects that are not budgeted for, but will likely be required and will put that fund into deficit spending?**

Response: *Capital projects are identified in the 5-year plan and are scheduled to optimize the use of funds. Certain projects have been deferred right now, however critical projects are scheduled.*

- **What is this year's increase in the Required Local Contribution (RLC) and what is the total tax?**

Response: *The FY 2022 increase is \$253,490 from FY 2021. Total RLC is \$5,168,904. The School District's current draft budget also reduces the Discretionary Contribution (Local Funds) by \$253, 490, with the net effect of no increase for local funds.*

- **What is the status of the common collector outfall issue and if that issue was pushed by the State what is the potential cost to the island?**

Response: *Permit issuance for common collectors distributed under the title DRAFT AKG575000 – Common Collector Outfalls Discharging Secondary Treated Domestic Wastewater to Marine Water of Southeast Alaska is on hold and has been since 2017. At this time, the State of Alaska Department of Environmental Conservation's Wastewater Permit Issuance Plan 2020-2021 (last updated March 2021) does not include pursuing a new common collector General Permit to replace the expired Alaska Pollutant Discharge Elimination System (APDES).*

Community Impact: *There are assumed to be a high number of common collectors meeting the State's criteria for a common collector under AKG575000 (i.e., two or more service connections on an outfall), each with relatively few connections. With annual costs for sampling time and labor and a minimum expense of \$1,970/year per system to test the samples, it is likely all, but the largest common collectors would operate at a deficit.*

*There are a number of steps prior to the Borough performing sampling:*

1. *Alaska Department of Environmental Conservation (ADEC) issues the common collector permit.*
2. *ADEC aggressively pursue its implementation.*
3. *The system owners wish for the Borough to take on sampling.*
4. *The outfall modified to allow for sample performance – e.g., by installing a manhole or other approved access point; and*

5. *The Assembly directs staff to pursue inclusion in the Borough's outfall testing program for the newly authorized systems.*

*Given the steps, if ADEC were to pursue permitting aggressively, it is entirely likely that the private parties will simply install on-site drain fields. This has already occurred on one system. The owners of the Gena Road system informed their customers that the outfall was no longer available for their use, and all installed permitted drain fields. That cost is entirely borne by the private property owners. The costs vary by property, due to available land and the topography in each site.*

*Financial Impact: Under AKG 575000, at current rates, the cost for annual sample testing, exclusive of the labor to sample for the currently enrolled systems, will increase from \$15,320 to \$20,275/year. While some portion of this cost may be absorbed by the outfall program, it will require further assessment as to operational costs. Any further increase in testing costs would require rates adjustment.*

*Compliance: As noted at the adoption of Resolution 2710, the fecal coliform limits under AKG 575000 reduce dramatically from their current levels:*

	Status Quo	AKG575000
Daily Max	150,000	30,000
Weekly Average	125,000	20,000
Monthly Geometric Mean	100,000	10,000

*While it is acknowledged that the outfalls are noncompliant in one or more parameter in nearly every reporting period, the frequency of fecal coliform compliance achievement would go from occasional to exceedingly rare, if not impossible.*

*As noted in Resolution 2710, there remains insufficient information on the capability of onsite wastewater treatment systems to achieve the secondary treated effluent criteria set by the State's permits on a regular, sustained basis.*

- **The current Federal administration is imposing new regulations in a number of sectors of the economy...do we anticipate any new costs to the Borough?**

Response: *The Centers for Disease Control (CDC) has not cleared the way for large cruise ships to operate in Alaska. This is clearly the largest economic threat posed by the administration at this moment.*

*The Congressional Delegation anticipates that residents will continue to experience rising fuel costs due to increased regulation and delayed permitting.*

- **Eventually some citizens will be required to purchase Federal Emergency Management Agency (FEMA) flood insurance. What is the latest information on when that will be required and what is the estimated cost to our community/economy?**

Response: *The FEMA Region X Engineer has indicated that the Borough's revised preliminary flood insurance rate maps may be ready for adoption as early as summer of 2022. There are still processes that need to take place before the letter of final determination is issued by FEMA, such as the public community meeting, which is slated for fall of 2021. An updated timeline of events has not been provided since the presentation of the Risk Map progress earlier in 2021.*

*A new program is circulating in Congress called Risk Rating 2.0. The intent of the program is to create equity in the National Flood Insurance Program (NFIP) rates. Currently, the rates are determined through a calculation of potential risk in a flood zone based on a national average. The Risk Rate 2.0 will look at each property individually and assess a risk rating and rate. Historical claims and losses, how close a structure is to the flood source, the elevation of structure, elevation of the surrounding ground, and type of construction methods are examples of criteria that will be used to evaluate the rates. Flood zones will no longer be used to determine the rates.*

*According to the FEMA's website for Risk Rating 2.0, <https://www.fema.gov/flood-insurance/work-with-nfip/risk-rating>, Alaska's profile under this program shows 83% of policyholders will see an immediate decrease in their flood insurance rates. This program appears to be what the Borough has been requesting from FEMA for a more equitable rating system, where Alaska policies do not subsidize the Gulf Coast. Without the Risk Rating 2.0, policyholders will see the annual 18% rate increase per year in addition to the general 3-4% for inflation. A letter or resolution directed to the Congressional staff urging the passage of Risk Rating 2.0 may be prudent.*

- **What are the recent increases to shipping (barge) costs? I seem to recall staff reporting this was about 28%**

Response: *Alaska Marine Lines' (AML) shipping prices have increased over the past year in two rate increases; general rate increase and the fuel surcharge. The general rate increase occurs annually, based on AML's operation costs. From 2019 to 2020, the general rate increase was 3.75%, the lowest increase seen in years past. 2020 to 2021, the general rate increase was 5%.*

*The fuel surcharge increases are published annually on the AML website, <http://www.lynden.com/aml/tools/fuelsurcharge.html>. The most recent fuel surcharge, published on April 4, 2021, is 8.5%; second lowest surcharge for all AML's locations. Arctic and Western Alaska sees the lowest surcharge of 4.25%. Inland trucking and Hawaii have the highest fuel surcharges; 33.5% and 32%, respectively.*

*AML has two different rates for shipping, Less than Container Load (LCL) and Container Load (CL). The LCL is essentially a pallet of goods that takes up*

less than a full container to ship, whereas the CL is a full container of goods. For example, the LCL is approximately \$25 per 100 pounds and the CL is \$10 per 100 pounds. The LCL loads are “touched” or handled substantially more times than the CL loads, due to having to be received, tagged with shipping information, moved to warehouse, loaded into container, verified in said container, unloaded, received, moved into another warehouse, and delivered to customer. The CL loads are received loaded and generally delivered without having to be handled as many times as the LCL. A flyer is attached (Borough Exhibit 1) that demonstrates the difference between LCL and CL. The LCL rates have increased quite a lot over the last ten years, due to lack of competition for shipping and the amount of handling necessary.

AML serves much of the west coast with many destinations of high populations. In Southeast, AML has installed and maintains infrastructure that rivals those destinations, but with quite a lot smaller population. The amount of infrastructure in Southeast costs millions to maintain and have few turns than inland trucking. AML purchases one to two large forklifts annually in order to keep up with the twice a week shipping schedules and saltwater environments.

The shipping rates for Southeast communities are comparable with each other; approximately 20 cents a mile; Juneau - \$0.19/mile, Sitka, Ketchikan, and Skagway - \$0.20/mile. These are much less than inland trucking to Portland, OR or Billings, MT; \$1.30/mile and \$0.66/mile, respectively. Although shipping to Southeast is less expensive, it does come at a cost of time; the shipping speed for inland trucking is much quicker than barge service. A cost comparison rate map is attached (Borough Exhibit 2) detailing other shipping rates. The rates on the map do not include the fuel surcharge but do take into account the most recent general rate increases for 2021.

- **What are the recent cost increases to lumber and building supplies? I have heard this was between 40-140%**

Response: According to Madison Lumber and Hardware staff, all building supplies have increased in price over the last year. Some materials have increased considerably, while others are keeping up with inflation. A few examples are as follows:

Shipping costs continue to rise, which in turn, increase the overall cost of the products.

Latex and plastic products were affected considerably during the freezing that occurred in Texas. The products that include latex and plastic have increased due to the loss of those materials during the freeze. Paint and plastic buckets are good examples of the increase.

Sheetrock is expected to increase, with speculation of approximately 20%. However, Madison’s supplier has been able to stay the increase by finding other distributors that have not experienced the increase yet. The increase, though, is expected to happen in the very near future.

Lumber and plywood have seen the highest increases over the past year. As an example, a 2"x4"x8' increased approximately 204% from 2020 to 2021; \$4.99 and \$10.19, respectively. These prices hold the same mark up by Madison. Recently, the price of lumber has begun to level out, but increases are expected to continue with no expectation of lowering.

Treated lumber has slowly crept up over the course of the year, and finally leveled out. However, the slow increase is expected to continue into the future.

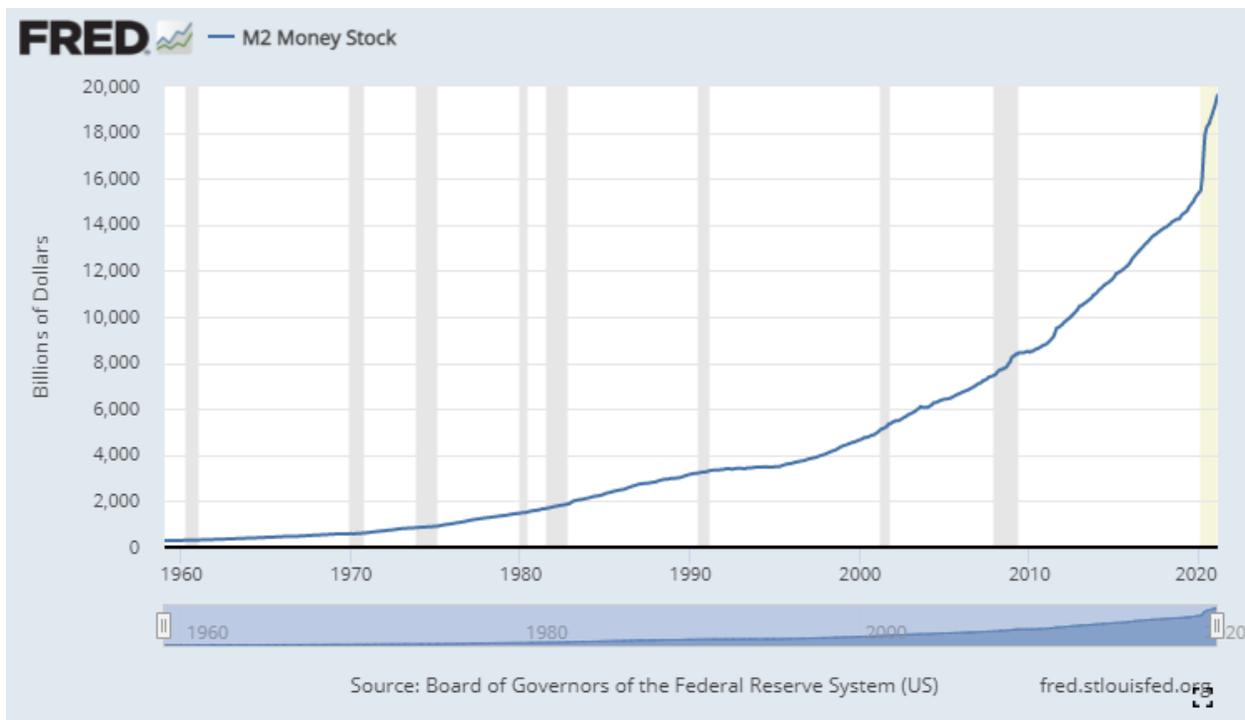
Plywood is the most substantial building material. Plywood prices have tripled over the last year. Madison's quotes for plywood are only able to be honored for one week, due to plywood's scarcity and increasing price. The price on plywood continues to climb and there is no expectation of that price being reduced or leveling out. Plywood is expected to become limited in supply and may not be available in the near future.

Other contractors have noted from other suppliers that plastic electrical boxes for installation in walls, are being rationed at supply houses in the lower 48. Electrical wiring (Romax) is also becoming scarce, which is increasing the price as well.

It has been speculated that the construction cost for a home has increased by \$30,000 over the last year, due to the increase in building supplies.

- **Do we have any information on food or general inflation on this island?**

Response: Most economists refer to inflation as a tax. The reason for this is when a government needs to fund services that are provided, it is done either through taxation or through deficit spending. When the funding comes through deficit



*spending the Federal Reserve prints new money increasing the M2 money supply; by doing this they are essentially diluting the purchasing power of all dollars in circulation. When the Federal Government passed their stimulus packages, it was deficit spending not offset by new taxes. From March 2020 through the end of February 2021 the M2 money supply increased from \$16.01 trillion to \$19.67 trillion; equating to a 22.8% increase (see chart from St. Louis Federal Reserve).*

### Home Prices

*Ketchikan's housing prices have seen a large increase with many listings attracting multiple buyers bidding up the asking price. As the supply continues to decrease, the bidding most likely will become more and more competitive. Two recent sales known to the Department sold for \$100k more than their assessed value; the two houses were previously assessed around \$260k. As more and more of these houses are sold above their assessed values; it is likely the Borough will see large increases in home values across the board. This will translate into higher property tax revenue for the Borough, but these taxes may become more of a burden or barrier for the lower income households.*

### Supplies

*New home building prices have increased due to the high demand for building supplies across the country with some speculating that such products as plywood may become impossible to source, due to production constraints. These production constraints will be worked out of the system over time, but due to the lack of new houses built post-Great Financial Crisis, along with talk of infrastructure packages. It is likely that these prices may never come back down entirely to pre-COVID prices because of that continued demand.*

### Oil

*Oil prices impact fuel, plastics, and other materials costs. This additional cost works its way through the supply chain until it ultimately ends up with the consumer paying a higher price for many products.*

- **Local unemployment rate and jobs/citizens lost during the pandemic?**

Response: *See attached Borough Exhibit 3 for full tables compiled by Planning staff.*

- **Staff narrative on the concerns with the recent merger of local fuel distributors and what impact that will/could have on energy costs.**

Response: *Petro Marine's recent merger with Crowley fuels was predicated upon Crowley's recent inspections and fines for unsafe conditions. Crowley was recently fined approximately \$13 million for violations of its plants in Ketchikan and Juneau. In order for Crowley to upgrade the Ketchikan facility to pass all the standards, it was looking at a \$13-\$14 million overhaul. Instead, Crowley*

decided to negotiate a \$1.3 million fine and get out of the fueling business in Southeast, which prompted the sale to Petro Marine.

Petro Marine stated that they are continually attempting to find the least expensive fuel possible for Ketchikan. Its Ketchikan facility is the primary distribution center for Southeast Alaska, holding more fuel than other facilities. Petro Marine's ability to store bulk fuel, allows it to purchase at bulk rates and hold out until there is a dip in the price. However, it does depend on consumption of fuel in Ketchikan and Southeast.

While the plans of Petro Marine are uncertain due to it being a private business, it has been stated by Petro Marine's facility Manager that Petro Marine will continue to work hard to keep fuel prices as low as possible for the people of Ketchikan. The future is uncertain, and costs are increasing for all sectors of the economy, and the fuel market is also following the trend.

Although Petro Marine will now have a larger share of the fueling market, another fuel vendor in the Borough is Delta Western Petroleum. Delta Western operates a tank farm at Ward Cove with a 1-million-gallon fuel tank and several tanker trucks for delivery to businesses and homes. Delta Western is providing competition for the market in Ketchikan. Delta Western is planning on expanding its fleet of tanker trucks and examining the potential for adding capacity at its tank farm. Also under consideration is the potential for a retail marine fueling dock in the future.

- **Any information on new costs being passed on by the state? Potential for a broad-based tax this legislative session and the impacts to our island if passed.**

Response: **State of Alaska - Taxation:**

There is interest by some members of the State legislature to implement a State sales tax. No specifics as to the tax are available at this time. While there may be this interest, the Governor, who has committed to no new taxes without a spending cap and a vote of the public, will weigh into the debate. His office has commented that it is possible that the influx of Coronavirus Aid, Relief, and Economic Security (CARES)/ Coronavirus Response and Relief Supplemental Appropriation Act (CRRSSA) / and American Rescue Plan Act (ARPA) money will delay the debate on taxation.

Tax bills currently filed can be found at the following link:  
<http://www.akleg.gov/basis/Bill/Subject/32?subject=TAXATION>

#### **Cost Shifting:**

Governor Dunleavy vetoed funding for the School Bond Debt Reimbursement program for this fiscal year which is a reduction of revenue to the Borough of \$2.27 million to the Borough. The Governor has proposed funding the program next fiscal year. It appears the Borough may receive funding through this program this fiscal year. At this time, the Borough will still be able to meet its

debt obligations. All other potential cost-shifting from the State is likely to occur in future years, according to the Alaska Municipal League staff. Some cost-shifting options that have been discussed, but are not imminent include:

- Requiring boroughs to assume public safety responsibilities that are currently provided by State Troopers.
  - Transferring responsibility of state roads to municipalities. Since the Borough does not have areawide road powers, this would likely result in additional road service areas.
  - The Public Employees Retirement System is underfunded. The State currently pays beyond the amount charged to municipalities. At some point, the State could ask municipalities to offset the shortfall.
  - The State could consider increasing the Required Local Contribution charged to organized boroughs or could underfund schools in future years, which would put additional pressure on local taxpayers to make up the losses.
- **Do we know of any potential liability or anticipated cost increases to the Mt. Point water/wastewater systems? What is the worst-case scenario and how would that affect rates?**

Response: *There are no anticipated cost increases for the Borough's water and wastewater utility systems: both systems currently have healthy fund balances to accommodate anticipated costs, with certain caveats outlined below.*

Staffing Levels: *Since FY 2019, the expense budgets have accommodated an additional employee in anticipation of the current Utility Supervisor's future retirement. This employee possesses water treatment and distribution certifications and wastewater collections and treatment certifications that are critical to the operations of the facilities. Generally, utility operators will be certified for either water or sewer, at least when operating systems requiring a Level II operator, but rarely do so simultaneously. It was assumed two individuals fully certified for the highest level of the water or sewer system would be needed to properly oversee the systems. Recruiting efforts for a fully certified individual were unsuccessful, and the utility supervisor has stated a desire to remain in his position for at least two more years. This results in a discrepancy between the adopted budget and actuals posted in the subsequent budget, with the lower expenses ultimately sustaining a mild year-to-year account surplus that is difficult to deduce during the current year. The Borough has provided training opportunities for the employees to obtain the certificates and will continue to do so. The additional two years may give current operations personnel the opportunity to gain the proper level of certification in both utilities.*

South Tongass Service Area Water: *The South Tongass Service Area's water division has generated surpluses over the last several years which may be*

used to improve the current system. The Borough is pursuing grants and loans to construct a new water tank in Ravenwood. Should all funding opportunities be realized, loan payments and new operational expenses, are not projected to require rates increases.

Non-areawide Wastewater Enterprise Fund: This fund accommodates three different activities: outfall testing, sludge pumping and disposal from onsite wastewater treatment plants (OWTS) and operating the Mountain Point Wastewater Treatment and Collection System. The fund has experienced revenue surpluses over the last six years due to rates increases for sludge (Ord. 1744 in 2015) and the sewer system (Ord. 1787 in 2016) despite increases in operating costs.

- *Outfall testing: Recent laboratory cost increases have reduced budget surpluses, but, generally, the outfall revenues and expenditures remain fairly well matched. Further lab increases would be sufficient to require examining the operational expenses to conduct this program.*
- *OWTS sludge removal and disposal program: The sludge program posts annual surpluses due to lack of participation. The Borough pumps 1,396 EDUs on a 3-year rotation: ideally, 465 systems should be pumped each year. In 2020, 372 OWTS were serviced, for an 80% participation rate, but 2017 was the last year with a higher participation rate, with 406 OWTS serviced. 100% participation is ideal, but the program is set up to generate funds totaling 80% of the cost of service from each customer. If participation reaches a point where sustained pumping exceed 80%, then sludge billing rates may be evaluated.*
- *Mountain Point Wastewater Treatment and Collection System: At present, systems operations generate a revenue surplus. Debt service from the low-interest loan from Alaska Department of Environmental Conservation (ADEC) requires careful assessment: between projects already completed (e.g. Forest Park – Oyster Ave. mains, sludge press replacement, etc.), and \$700,000 in projects identified by CRW Engineering Group LLC. as part of their plant assessment. These projects may diminish the current operational surpluses. Grant funding opportunities will be pursued aggressively should they come available.*

- **Any planned or recent increases in service district costs?**

Response: *The Ketchikan Gateway Borough provides road maintenance to the Forest Park, Gold Nugget, Old Dairy, Homestead, Mud Bight, and Waterfall Service Areas. With the exception of Mud Bight, all carry fund balances that are either strong, or sustainable under the current revenue structures by managing the scope of services received in each year. No increase in assessments are planned.*

*The Mud Bight Service Area, however, is projected to post a fund balance deficit for FY 2021, based on receipts received to date for snow removal. The current rate of \$120/property/year is insufficient to generate surpluses. Staff*

*has commenced discussions with the board for the preferred method to generate additional revenues.*

- **Any information on the number of businesses that have closed since the pandemic?**

Response: *While some businesses are closing, others are opening. The number of businesses closed since the pandemic is not available at this time.*

- **What are the total numbers of property owners that have been late or in default on property tax payments during the pandemic?**

Response: *As of today (4/13), the total number of delinquent property tax accounts is 209. This is actually lower than any of the last 10 years.*

- **What was the amount of CARES act funds we spent on rental/mortgage assistance and how many homeowners did we help?**

Response: *Rent and Mortgage Assistance Program was for a total of \$1,822,513. 1,577 disbursements (grants) were given. This figure does not equal the number of households because household was eligible for more than 1 grant.*

- **Total number of households in the borough?**

Response: *The estimated number of permitted/assessed dwelling units is 6,575.*

- **What is the estimated local economic impacts of the Alaska Permanent Fund Dividend (PFD) and how will reduced PFDs affect sales tax revenue and the poverty rate?**

Response: *According to Alaska Permanent Fund Dividend data, approximately 86 percent of the Alaska population received a PFD in 2019. Ketchikan had 13,901 residents in 2019. Based on the statewide average, approximately 11,954 Ketchikan Gateway Borough residents would have received a dividend of \$1,606 in 2019. The dividend in 2020 was \$992. At this point, we do not know what the dividend will be in 2021.*

*The Borough and City of Ketchikan have traditionally offered a sales tax holiday the weekend following the distribution of the dividend. In 2019, vendors reported \$861,367. In 2020, sales were \$869,462.*

**Additional attachments included on the Borough website:**

<https://www.kgbak.us/Archive.aspx?AMID=84>

Borough Exhibit 1  
Borough Exhibit 2  
Borough Exhibit 3  
City of Ketchikan- Response to Request

Exhibit A  
Exhibit B  
Exhibit C - part 1  
Exhibit C - part 2  
Exhibit D  
Exhibit E  
Exhibit F  
Exhibit G  
Exhibit H  
Exhibit I  
Exhibit J