

Agency: Commerce, Community and Economic Development**Grants to Municipalities (AS 37.05.315)****Grant Recipient: Ketchikan Gateway Borough****Project Title:****Project Type:** Remodel, Reconstruction and Upgrades

Ketchikan Gateway Borough - Ketchikan International Airport Facility Renovations and Reconstruction

State Funding Requested: \$1,500,000**House District: 1 / A**

Future Funding May Be Requested

Brief Project Description:

Funding for re-construction of Ketchikan International Airport facilities.

Funding Plan:**Total Cost of Project: \$1,500,000**

	<u>Funding Secured</u>		<u>Other Pending Requests</u>		<u>Anticipated Future Need</u>	
	<i>Amount</i>	<i>FY</i>	<i>Amount</i>	<i>FY</i>	<i>Amount</i>	<i>FY</i>
Local Funds	\$2,500,000	2009				
Total	\$2,500,000					

Detailed Project Description and Justification:

The Ketchikan Gateway Borough requests that the State retire \$3,432,964 in currently outstanding municipal debt incurred for capital facilities relating to the State-owned (and Borough-operated) Ketchikan International Airport.

The critical need to address those debts, which contribute significantly to the high fees at the Ketchikan International Airport, should be lost on no one given the announcement last year regarding cutbacks by Alaska Airlines – the only major carrier serving Ketchikan. In that respect, Alaska Airlines reported as follows:

Air transportation is obviously critical for most communities in Alaska. The Alaska Department of Transportation and Public Facilities (DOT&PF) notes that “there is no practical alternative” to air transportation for most communities in Alaska.

The State owns and operates more than 250 airports in communities throughout Alaska. One of the few exceptions is Ketchikan, where the Ketchikan Gateway Borough is responsible for the operation of the State-owned Ketchikan International Airport. In the current fiscal year alone, the Borough has appropriated more than \$4 million for operation of the Ketchikan International Airport.

Project Timeline:

FY 2011

Entity Responsible for the Ongoing Operation and Maintenance of this Project:

Ketchikan Gateway Borough

Grant Recipient Contact Information:

Name:	Dan Bockhorst
Address:	1900 First Avenue Ketchikan, AK 99901
Phone Number:	(907)228-6625
Email:	danb@borough.ketchikan.ak.us

Has this project been through a public review process at the local level and is it a community priority? ☒ Yes ☐ No

Agency: Commerce, Community and Economic Development**Grants to Municipalities (AS 37.05.315)****Grant Recipient: Ketchikan Gateway Borough****Federal Tax ID: 92-0084626****Project Title:****Project Type:** Remodel, Reconstruction and Upgrades

Ketchikan Gateway Borough - Ketchikan International Airport Operations and Infrastructure

State Funding Requested: \$9,905,000**House District: 1 / A**

One-Time Need

Brief Project Description:

Funding for improvements to the state's Ketchikan International Airport, including replacement of the failing airport ferry terminal moorage facility, and airport parking and lighting improvements.

Funding Plan:

Total Project Cost:	\$9,905,000
Funding Already Secured:	(\$0)
FY2013 State Funding Request:	<u>(\$9,905,000)</u>
Project Deficit:	\$0

Funding Details:

The amount of funding requested for the infrastructure portion of this proposal is \$9,905,000. The request for monies for the infrastructure is a one-time funding request.

Detailed Project Description and Justification:

Funding for improvements to the state's Ketchikan International Airport, including replacement of the failing airport ferry terminal moorage facility, and airport parking and lighting improvements.

The Ketchikan International Airport is the fifth busiest airport in Alaska (behind Anchorage, Fairbanks, Juneau, and Bethel). Among the 255 State-owned airports in Alaska, the Ketchikan International Airport is the only one operated by a local government (the Ketchikan Gateway Borough).

FY13 State capital funding for the State-owned Ketchikan International Airport is sought for the following five components:

1) \$3,950,000 to Replace Failing Airport Ferry Terminal Moorage Facility. The Borough seeks funds to replace the 71-year-old Gravina Island Terminal II ("Terminal") located on the State-owned Ketchikan Airport Reserve.

The nearly three and quarter of a century-old terminal was closed to the public six years ago by the Alaska Department of Transportation & Public Facilities due to safety concerns. While closed to the public, the terminal continues to be used for moorage of the two airport ferries that transport approximately 350,000 passengers and 80,000 vehicles annually across Tongass Narrows between the Ketchikan International Airport and Ketchikan. The two ferries, with a replacement value of \$20 million, provide the only link to the Airport. The ferries are also used in critical missions involving every medevac transport in and out of Ketchikan.

Estimates for improvements include the following:

2) \$2,047,500 for Airport parking and lighting improvements. The Borough seeks funds to improve vehicle parking areas at the Ketchikan International Airport. The Airport parking areas on Gravina Island are unpaved and lack adequate lighting. The lack of paving increases maintenance costs. Additionally, the lack of paved parking and adequate lighting create public safety hazards and inconveniences to the traveling public.

In addition to providing for public safety and convenience, the Airport parking and lighting improvements project will help reduce costs. The Ketchikan Gateway Borough in partnership with the Alaska Department of Transportation and Public Facilities is searching for ways to reduce costs and increase operating revenues at the State-owned and Borough-operated Ketchikan International Airport.

3) \$1,197,500 - Replace failing Airport Terminal heating system and to make other energy-saving improvements. The Borough seeks funds to replace the 40-year-old inefficient diesel boilers currently used to heat the Airport Terminal. The inefficient boilers have reached the end of their useful life. Replacement of the existing heating system with one that is modern and efficient will result in significant reductions in operating costs. Project funding will allow for other energy-saving and cost reduction measures as well.

4) \$2,500,000 - For contractual costs recovery. Under the terms of the 1984 agreement between the Borough and the State concerning operation of the Ketchikan International Airport, the State is obligated to pay 90 percent of major maintenance costs at the Airport. Compliance with the contractual cost recovery provisions of the contract have been lacking over the past twenty-eight years. The Borough seeks to recover those costs, conservatively estimated at \$2.5 million. Funding would eliminate the accumulated operating debt of the Airport Enterprise Fund, putting the Airport on a secure fiscal footing for the future.

5) \$210,000 - Pay remaining debt for M/V Oral Freeman. The Borough seeks funds to pay off the remaining debt for construction of the M/V Oral Freeman.

Recognizing that the Airport ferry system is the only link for passengers and vehicles between the Airport and Ketchikan, the State accepted its moral obligation to provide for this critical transportation link by appropriating \$700,000 to pay debt on the Airport ferry MV Oral Freeman. In 2010, the State of Alaska further recognized its moral obligation to provide for the critical transportation link by funding the construction of a new Airport ferry at a cost of \$8.5 million. \$210,000 in debt for the MV Oral Freeman remains outstanding.

The amount of funding requested for the infrastructure portion of this proposal is \$9,905,000. The request for monies for the infrastructure is a one-time funding request.

As noted above, the Borough and the Alaska Department of Transportation & Public Facilities are negotiating over ways to increase revenues and decrease expenses at the Ketchikan International Airport. The Governor has included operating funding for the Ketchikan International Airport in his FY 2013 Budget (as he has included funding for all other State-owned airports in his budget). The funds requested above are separate from any funds requested through negotiations with the Alaska Department of Transportation and Public Facilities.

The Ketchikan Gateway Borough will operate and maintain the Gravina Island Terminal and the Gravina Island parking

areas for the Airport as long as the Borough remains responsible for operation of the Airport. The five projects for which funding is requested here will reduce operating costs and increase operating revenues, which, in turn, will help to reduce the existing annual deficit.

Fundamental State Responsibilities: The State of Alaska owns 255 airports, 253 of them are fully funded with State General Fund money; two others (Anchorage and Fairbanks) are self-sustaining following investment by the State in infrastructure. The Ketchikan Airport is the only State airport operated by a local government. Despite the levy of more than \$3 million in Airport fees and charges by the Borough annually, the Ketchikan Airport cannot operate on a self-sustaining basis. Funding of these projects will significantly cut the deficit.

Deferred Maintenance: The Airport ferry terminal moorage facility is 71 years old. It was condemned for public use by the State of Alaska more than six years ago. The facility has deteriorated to the point where it must now be replaced. The Airport parking areas require pavement and lighting to improve public safety and convenience, reduce costs, and increase revenue for the Airport Enterprise Fund.

Public Safety: The lack of pavement and adequate lighting increase risks of personal injury to users of the Airport.

Project Timeline:

2012

Entity Responsible for the Ongoing Operation and Maintenance of this Project:

Ketchikan Gateway Borough

Grant Recipient Contact Information:

Name: Dan Bockhorst
Title: Borough Manager
Address: 1900 First Avenue
Ketchikan, Alaska 99901
Phone Number: (907)228-6625
Email: danb@kgbak.us

Has this project been through a public review process at the local level and is it a community priority? ☒ Yes ☐ No

THE COMMUNITY OF KETCHIKAN

FISCAL YEAR 2011 STATE FUNDING REQUEST



PROJECT NAME

Ketchikan International Airport Debt Retirement.

APPLICANT

Ketchikan Gateway Borough (*Borough Priority No. 6*)

FUNDING REQUEST

Total Project Cost	\$13,832,964
Funding Already Secured	\$2,500,000
Debt Retirement	\$3,432,964
Airport Vehicle Parking	\$1,500,000
Airport Vessel Drive down Moorage Facility	\$2,800,000
Revillagigedo Airport Terminal	\$3,600,000
Total Request	\$11,332,964

The Ketchikan Gateway Borough proposes that the State retire \$3,432,964 in currently outstanding municipal debt incurred for capital facilities relating to the State-owned (and Borough-operated) Ketchikan International Airport.

PROJECT DESCRIPTION

To date, the Ketchikan Gateway Borough has paid more than \$2.5 million in principal and interest on that debt. The burden of that debt has imposed significant adverse impacts in terms of the fees that the Borough must charge for use of the airport. Those fees make the Ketchikan International Airport one of the more expensive in Alaska for use by private air carriers.

The critical need to address those debts, which contribute significantly to the high fees at the Ketchikan International Airport, should be lost on no one given the announcement last year regarding cutbacks by Alaska Airlines – the only major carrier serving Ketchikan. In that respect, Alaska Airlines reported as follows:

Alaska Airlines announced [on September 12, 2008] it is reducing capacity 8 percent compared to a year ago, effective with its winter schedule starting Nov. 9 and continuing into 2009. The reduction in capac-

(Continued on page 39)

ity (available seat miles) represents 15 percent fewer departures. As a result, Alaska Airlines is reducing its work force by 9 percent to 10 percent.

"The one-two punch of record oil prices and a softening economy, on top of increased competition, has burdened Alaska Air Group with a \$50 million loss on an adjusted basis for the first half of this year. That demands decisive action to ensure the viability of our company," said Bill Ayer, chairman and CEO of Alaska Air Group, the parent company of Alaska Airlines and Horizon Air.

The \$3,432,964 in debt and resulting fee structure also greatly limits the Borough's ability to fund other needed services and facilities at the airport.

Air transportation is obviously critical for most communities in Alaska. The Alaska Department of Transportation and Public Facilities (DOT&PF) notes that "there is no practical alternative" to air transportation for most communities in Alaska. That is certainly the case for Ketchikan. DOT&PF states as follows regarding airports:

Aviation touches all aspects of life in rural Alaska, and is a basic mode of transportation because approximately 82% of Alaskan communities are not served by roads. Most of the time there is no practical alternative. So Alaska has six times as many pilots per capita and 16 times as many aircraft per capita when compared to the rest of the United States. Rural Aviation covers all Alaskan airports except the Ted Stevens Anchorage International Airport and Fairbanks International Airport. The Alaska Department of Transportation & Public Facilities owns 256 rural airports, and the Division of Statewide Aviation prepares policies, procedures, and programs to develop, construct, operate, and manage these rural public airports. (Source: <<http://dot.alaska.gov/stwdav/index.shtml>>)

As noted above, the State owns and operates more than 250 airports in communities throughout Alaska. One of the few exceptions is Ketchikan, where the Ketchikan Gateway Borough is responsible for the operation of the State-owned Ketchikan International Airport. In the current fiscal year alone, the Borough has appropriated more than \$4 million for operation of the Ketchikan International Airport.

As noted above, the Ketchikan International Airport is burdened with a significant amount of local debt. The current principal outstanding is \$3,432,964 as outlined below:

- ◆ \$3,128,578 for Airport Ferry Bonds and Airport Terminal Bonds;
- ◆ \$123,765 for Airport HVAC; and
- ◆ \$180,621 for Terminal Remodel.

In recent times, the State of Alaska has begun to recognize the need for it to provide greater financial support for capital facilities at the Airport. For example, the State is bearing the full financial burden for the construction of a new ferry to serve the Ketchikan International Airport. In contrast, however, the Borough incurred \$1,725,000 in debt for the construction of the ferry MV Oral Freeman to serve the airport.

The Ketchikan Gateway Borough asks the State to accept the same responsibility for the existing debt that it has done for the planned new airport ferry.



Ketchikan Gateway Borough

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Background Regarding \$1.5 Million Capital Appropriation for Ketchikan International Airport

(Prepared April 28, 2010)

\$1,500,000 was appropriated in the FY 2011 State Capital Budget for “Ketchikan Gateway Borough – Ketchikan International Airport Facility Renovations and Reconstruction.” (Section 10, page 95).

The funding was requested by the Ketchikan Gateway Borough and is a high priority for the Borough government.

Funding for the Airport capital projects is one of three appropriations totaling \$2,570,000 to the Borough (population 12,984) in the Capital Budget as shown below:

Ketchikan International Airport Facility Renovations and Reconstruction	\$1,500,000
Gateway Recreation Center Emergency Roof Replacement	\$920,000
Children’s Community Park	<u>\$150,000</u>
Total	\$2,570,000

It is important to recognize that the Ketchikan Gateway Borough is the only local government in Alaska that operates a *State-owned* certificated airport.

The costs to the Borough for Airport operations in Fiscal Year 2009 totaled \$4.6 million (audited figure). Funding the Airport represents a growing fiscal burden to the citizens of the Ketchikan Gateway Borough. Significant fees are already imposed by the Borough on all Airport users. Those high fees, in part, have earned the Ketchikan International Airport the regrettable distinction as one of the most expensive airports among the more than 90 airports used by Alaska Airlines.

Despite high fees, the *State-owned* Ketchikan International Airport has accumulated more than \$2.1 million in operating debt (audited figure of amount owed to the Borough’s central treasury) over the past 30 years.

By operating the Ketchikan International Airport, the Borough conservatively estimates that it saves the State of Alaska at least \$1.5 - \$2 million annually.¹

In addition to incurring debt for *operating* the State-owned Airport, the Borough has been compelled to fund some essential *capital* facilities at the State-owned Airport. For example, in 2001 the Borough and the State of Alaska shared the cost of constructing a new ferry (*MV Oral Freeman*) which provides the key means of access to the Airport. The Borough incurred \$1,725,000 in bonded indebtedness to fund its share.

Funding capital facilities at the State-owned Airport is an obligation of the State of Alaska. The State recognized this in FY 2010 when it funded 100 percent of the cost of a new ferry to replace the 30-year old MV Bob Ellis (the second Airport ferry).

The current outstanding principal owed by the Borough as debt for capital facilities at the Airport equals \$2,990,000.

Principal and interest payments by the Borough on that debt divert revenues that could otherwise be used for vital maintenance needs at the Airport. As a result, a growing backlog of deferred maintenance needs at the Airport can no longer be ignored. In particular, the immediate needs include:

- Replacement of the 30-year old HVAC system at an estimated cost of \$500,000.
- Replacement of the siding on the Airport terminal and major repairs to the roof. Given that the average annual rainfall in Ketchikan exceeds 12 feet per year, water intrusion into essential community facilities cannot be ignored. The estimated cost of the siding and roof repair work is \$750,000.
- Replacement of entryway doors at an estimated cost of \$250,000.

The \$1.5 million appropriation will fund those critical projects. If the cost of the projects listed above is less than the estimate, there are other critical capital needs at the

¹ The State of Alaska is limited by statute in terms of the fees it can charge at State-operated airports. The Ketchikan Gateway Borough charges at least \$1.5 – \$2 million more in airport fees annually at the Ketchikan International Airport compared to what the State would be able to charge under existing State law. Additionally, the Ketchikan International Airport incurs operating losses in some years. For example, in the fiscal year just completed, the Airport International Airport incurred an operating loss (including depreciation) of \$1,171,468.

Airport. These include repairs to the security fencing, decommissioning an abandoned fuel tank, covered pedestrian walkway at the terminal, parking metering system at the Airport parking lots, and overhaul of the Airport ferry engine.

If the appropriation is vetoed, it is anticipated that a movement will grow locally to return responsibility for operation of the Ketchikan Gateway Borough to the State of Alaska. That is not an outcome yet advocated by the Borough nor desired by the State of Alaska.

Further information about the critical need for the \$1,500,000 appropriation for Ketchikan International Airport Facility Renovations and Reconstruction is available from:

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