

MEMORANDUM



DATE: May 10, 2023
TO: Assembly Finance Committee
FROM: Jeff Rogers, Finance Director
SUBJECT: Amendment Related to Shore Power Revenue Bond

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The Assembly has authorized by ordinance the issuance of a \$5 million bond funded by port development fees for the purpose of ordering the two load-tap transformers that would initiate the process to deliver shore power to CBJ's two city-owned docks.

A revenue bond does not pledge any tax revenue, and bondholders have no recourse to general taxes in the event of a default. Hence, when investors consider purchasing a bond, they evaluate the creditworthiness of the revenue stream that is pledged as part of the bond offering. While the future of the CBJ's collection of port development fees appears to be very good, the recent past is obviously very rocky.

Importantly, new revenue bonds issued against the same revenue streams that fund previously issued bonds are subject to specific tests. Those specific tests are designed to make sure that revenue streams are not being *over-pledged* via multiple different bonds issued in different timeframes. One of those specific tests is that any bonds already issued must be in compliance with their "bond covenants"—meaning the agreed-upon revenue sufficiency measures.

The two city-owned docks and the related seawalk improvements were bond-funded, and those bonds are still being repaid. The "covenants" with those bonds require that annual revenue is not less than 1.2x the annual debt service amount. Because of the pandemic and stoppage of Juneau's cruise seasons, CBJ's existing dock bonds violated that coverage requirement for the most recently closed fiscal year: FY2022.

Hence, CBJ has an existing revenue bond funded by port development fees that is in *technical default*. This technical default will resolve itself on July 1, 2023 because port development fee revenue for FY2023 meets the 1.2x revenue coverage requirement.

However, as a result of this technical default in FY22, CBJ is unable to issue another revenue bond against the same revenue stream until after July 1, 2023. **In short: CBJ cannot issue a \$5M revenue bond for Shore Power as planned.**

Staff have considered waiting until July 1, 2023 to issue the bond. But, after consideration, especially in light of the very small bond size, we believe it would be most prudent to spend FY24 passenger fee revenue on the transformers for Shore Power *without using debt*. Using cash at this time will allow for a more significantly sized revenue bond in the near future for both Shore Power and Seawalk development.

To this end, staff recommend that the Assembly permanently abandon the effort to obtain \$5M revenue bond debt for these transformers; and instead, reduce the \$10M allocation of passenger fees for the Seawalk to \$5M, and use \$5M of FY24 passenger fees to advance the Shore Power project without a debt issuance.