

**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

**\$1,500,000  
Approved**

**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

# 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
<b>Total Request</b>	<b>\$11,332,964</b>

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

1900 1st Avenue, Ketchikan, Alaska 99901 ♦ (907) 228-6625 Telephone ♦ (907) 228-6684 Fax

## 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>
<b>Total</b>	<b>\$2,570,000</b>

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.<sup>1</sup>

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

---

<sup>1</sup> 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:

Dan Bockhorst  
Borough Manager  
Ketchikan Gateway Borough  
1900 First Avenue, Suite 210  
Ketchikan, Alaska 99901

Telephone: (907) 228-6625  
E-mail: [danb@kqbak.us](mailto:danb@kqbak.us)