KODIAK CITY COUNCIL

WORK SESSION AGENDA

Tuesday, March 6, 2012

Kodiak Island Borough Conference Room
7:30 p.m.

Work sessions are informal meetings of the City Council where Councilmembers review the upcoming regular meeting agenda packet and seek or receive information from staff. Although additional items not listed on the work session agenda are sometimes discussed when introduced by the Mayor, Council, or staff, no formal action is taken at work sessions and items that require formal Council action are placed on a regular Council meeting agenda. Public comments at work sessions are NOT considered part of the official record. Public comments intended for the "official record" should be made at a regular City Council meeting.

Discussion Items

1. Public Comments (limited to 3 minutes)
2. Council Discussion of Development of Boatyard Business Plan 1
3. J-1 Visa Program Update 75
4. Library Capital Campaign Update ....(No Backup)
5. March 8, 2012, Agenda Packet Review

To Be Scheduled

1. FY2013 Budget Presentation Work Session (May 5)

Kodiak Boatyard Business Plan

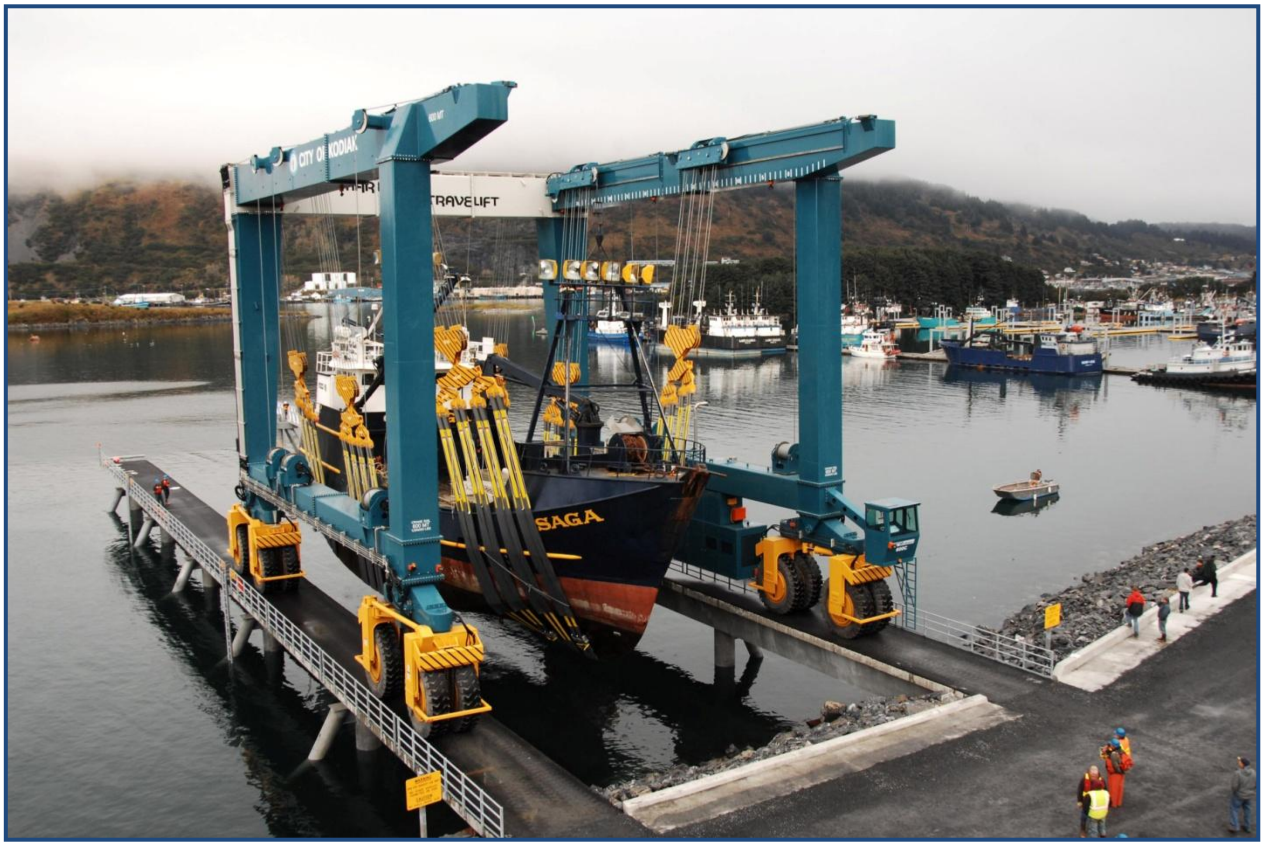

Photo by Hank Pennington

August 2010

Executive Summary and Section VII
Revised January 2012

Kodiak Boatyard Business Plan

Prepared by: Marty Owen, Harbormaster

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VII	Financial Analysis and Plan (Revised Dec 2011)	27

Appendices: Not included in revision.

A. Boatyard Vendor List

B. Boatyard Advertising Plan and Budget

C. Large Travelift Feasibility Study Prepared for the City of Kodiak, August 2004, by Northern Economics Inc., and PND Engineers, Inc.

D. Kodiak's Boatyard: Progress, Challenges and Opportunities: PowerPoint, Harbormaster Marty Owen, for public presentations

E. Management and Ownership Options, PowerPoint presentation to Kodiak City Council in 2006 by Harbormaster Marty Owen

Photo by Jan Pennington

Kodiak Boatyard's first lift, October 3, 2009, 560 tons!

I. EXECUTIVE SUMMARY

1. This revised executive summary discusses the Boatyard Enterprise Fund's FY2011 financial position. It also presents options for the City Council to discuss toward it goal to break even by FY2015. There are no significant changes to the body of the document. Changes will be made when and if the Council changes the way the City will do business in the boatyard. Section VII, the financial analysis contains an updated profit and loss statement for Fy2011. The entire Plan may need to be rewritten once a professional economic/financial analysis is completed and the Council provides guidance as to how they want to proceed.

2. The boatyard has operated for two years with 99 vessels utilizing the yard as of Dec. 31, 2011. The two operating years are spread out over three fiscal years. Only FY2011 data shows a full fiscal cycle.

3. The machinery functions well and the yard operates smoothly. The facility is managed by Kodiak's Harbormaster and staff. Two full-time employees keep the yard open seven days per week. A contract employee operates the lift and one harbor employee cross-trains as the backup

operator. A four-man team is necessary to lift a boat so harbor maintenance personnel and temps are called in to assist with lines, straps, buckles, and cribbing blocks.

4. The following topics are discussed in detail below:

- Analysis of FY2011 financial outcome
- Market Share
- Lay days
- Facilities
- Private vs. public operation of the yard
- Impact to the local economy
- Topics for City Council discussion
- Comments by Mike Terminel, Fleet Manager, Edison Chouest Offshore, Dec 2011

5. Analysis of FY2011 financial outcome

A. The income statement on page 27 presents actual data from the first full fiscal year that ended June 30, 2011. The unrevised proforma budgets in the 2010 version of this plan were based upon estimates and were remarkably close to reality. For comparison purposes, they have been included with revision.

B. The original proforma budget was based upon lifting 50 vessels the first year full year; the actual number of lifts was 44.

C. The proforma budget for FY2011 predicted an operating loss of $266,000. The actual cash outflow was $230,000. The deficit and depreciation ($530,000) was absorbed by the Boat Harbor Enterprise Fund.

D. FY2011 statistics:	Longest / shortest vessels	171 / 58	feet
	Average length of vessel	93	feet
	Heaviest / lightest vessels	480/110	tons
	Average weight	270	tons
	Longest / shortest lay days	66 / 3	days
	Average number of lay days	15	days
	Highest / lowest revenue per vessel	$24,881 / $4,121	
	Average revenue per vessel	$9,819	

E. The City Council's FY2011 budget guidance set a goal for the boatyard fund to break even (excluding depreciation) after five years. To break even in FY2011, an additional $230,000 was necessary.

F. A reduction in expenses should also be explored. Unfortunately most of the boatyard expenses are in fixed overhead. While marketing and advertising might appear to be an obvious place to cut expenses, to do so is counterintuitive when the need is to generate more revenue by lifting more boats and selling more lay days.

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G. Interfund charges could be redistributed because $156,000 is a lot of expense for the boatyard fund to absorb. It is currently treated as a fixed expense.

H. Financial projections in the original plan assumed growth of about seventy-five vessels per year to reach a breakeven point in FY2015. The growth assumption may have been optimistic because the second operating year showed no increase in the number of lifts.

I. Lift and lay day rates were increased by 10 percent on July 1, 2011 (See Section III, page13), so everything else being equal, revenue is estimated to increase about $45,000 in FY12. Another, much larger rate increase, perhaps as much as 50 percent, is necessary to eliminate the deficit in four years assuming no growth in vessel use. However, a large rate increase may induce market share loss.

J. Professional economic analysis makes sense at this point now that there is actual financial data to analyze. The previous feasibility studies by Northern Economics Inc. were purely estimates since no hard data was available. A refreshed look at the actual financial data might suggest that the City take a different approach. Should the Council be interested in contracting with a private operator, the study could suggest a fair annual lease value.

6. Market Share

A. Kodiak primarily attracts local vessels from the commercial fishing sector. Seventy-five percent of the vessels are local, the remaining twenty-five percent are Alaskan, but not home-ported in Kodiak. Two vessels were from other than the commercial fishing sector: one from the oil and gas sector, the 135' M/V Arctic Wolf; and a coastal freighter, the 151' M/V Helenka-B. Their home ports are in Valdez and Homer respectively.

B. The M/V Arctic Wolf, is owned by Edison Chouest Offshore. Edison's Alaska fleet manager, Mike Terminel recently had a conversation with the Harbormaster. He was very complementary of Kodiak's boatyard but offered a long list of suggestions to improve it. His comments and suggestions are included in paragraph 12 below. Edison Chouest Offshore owns and operates nine commercial boat yards so Terminel's comments have considerable credibility. Terminel believes that there are significant numbers of non-commercial fishing vessels working Alaska waters and that the owners are not aware of "Kodiak great boatyard." He had several excellent suggestions to for to capture a larger market share. His biggest problem with using the yard was its lack of cover.

C. Mike Terminel (See complete list of suggestions in paragraph 7 below.) recently suggested that the Kodiak consider joining the Alaska Resource Development Council (ARDC). ARDC is a statewide business association comprised of individuals, companies, and communities from Alaska's oil and gas, mining, forest products, tourism and fisheries industries. ARDC's membership includes Native Corporations, local communities, organized labor, and industry support firms. It provides forums for policy debate and analysis to help guide Alaska in these areas, as well as in land use, transportation, power development, international trade and economic development.

D. Terminel also suggested that Kodiak hold a "town-meeting" to facilitate the discussion of how Kodiak can it easier for out-of-town boat owner's to use of the boatyard. ComFish might be an excellent venue for such a event. The City could make a presentation explaining what's going on at the boatyard sharing information like number lifts, service rates, revenue/expense statistics, and so on. Then solicit ideas from the private sector. Invite all business interested in supporting the yard, boat owners, hotels, restaurants, B&B, retailers, marine supply, tradesmen, etc. What can the community offer to make outside vessel owners feel welcome? How can City government facilitate economic activity in the boatyard?

7. Lay days

A. Vessels are charged for the dry moorage space they occupy. Every day in the yard is billed as a lay day. The charge is currently set at $2.20/ft. So a 100-foot vessel pays $220 per lay day. In FY2011 lay days generated $126,000 which is 30 percent of the boatyard's total revenue. The average stay in the boatyard is 16 days. The maximum stay during FY2011 was 58 days.

B. Lay day revenue is an excellent foundation for financial stability because it generates revenue with no additional expense to the City.

C. The boatyard has an annual potential of 2,190 lay-days (365 days x 6 dry moorage sites). In FY2011, 689 lay days generated $126,000. Only one-third of the boatyard's full lay-day potential is actually producing income.

D. The initial lay day fee had progressively increasing cost per day. The longer a vessel stayed in the yard the higher the rate. Boat owners did not like it. This structure was created to encourage vessels to keep the number of days in the yard to a minimum because we (wrongfully) assumed that with only six dry moorage sites, the boatyard would be full most of the time.

E. At the recommendation of the Port and Harbor Advisory Board last spring, the layday rate was changed. It is now a fixed at $2.20 per foot per day, regardless of the length of stay.

F. To encourage more lay day use, thus hopefully increase revenue, the Council might consider a discounted rate that encourages long-term projects. Boat owners might be willing to stay longer if the lay day cost declined with longer stays. For example the rate might be adjusted to decline by some percentage after 20 days and even more after 40 days. The rate needs to be high enough to discourage vessels from being "stored" in the boatyard.

8. Facilities

A. The lack of options for covering vessels, or at least blocking the wind, is the only serious complaint that owners always bring up. We hear it often and it is a serious drawback to boat repair and maintenance in Kodiak.

B. Sheltering vessels for painting and welding is difficult to accomplish. Boat owners and crews spend many lay days figuring out how to protect their vessel from the elements, especially during the fall, winter and spring when most of the work is done and the weather is the worst. Boatyard staff have observed many failed attempts to block the wind.

C. The harbor department has discussed options like portable walls or a series of 40-foot vans that could be positioned around a vessel, but these would have to meet engineering standards for liability purposes. A large building would be ideal, but may not be immediately affordable.

D. The PHAB is an advocate of procuring shelters, wind breaks, and/or buildings for the boatyard. There was a major discussion about it at their Dec 2011 meeting. The PHAB chairman created a sub- committee, to look into the feasibility of having a covered structure. The have asked for an informal feasibility proposal from a manufacturer of large metal buildings. More information is expected in early January 2012.

9. Private or public operation of the boatyard

A. The City should explore the original operating concept: Lease the boatyard to a private operator . . . much the same as it does with the cargo operation at Pier 3. A professional analysis to determine the value of a lease would be advisable.

B. A private operator would very likely want the exclusive rights to offer services -- like Horizon Lines at Pier 3. That would end the attractive "open yard" option that allows boat owners to work on their own boats and hire vendors of their own choosing.

C. Because the boatyard's depreciation expense is large at $530,000 annually, it is unlikely that this amount could be recovered by leasing the facility. However it is likely that a private firm could operate the yard more economically than the City.

10. Impact to the local economy.

A. The impact to Kodiak's overall economy is significant, but not easy to quantify without getting a professional economist involved. Boat owners, vendors, and service providers do not disclose the amount spent servicing vessels.

B. Every dollar spent locally in the Kodiak boatyard would have been spent in another community if the boatyard had not been built. Each dollar typically turns about seven times locally. Considerable detail is contained in Section V of the business plan.

11. Topics for City Council discussion and consideration

A. What strategy should Kodiak adopt to attract more vessels to the boatyard?

B. Can membership in an organization like the Alaska Resource Development Council (ARDC) be explored?

C. From what maritime sub-sectors can new business be solicited? Examples: oil & gas, tow boats, coast freighters, and so on.

D. Should expenditures on marketing advertising be increased in an effort to reach maritime sub-sectors beyond commercial fishing?

E. Should the City invest in a building at the boatyard ?

F. Should the City invest in equipment to block the wind and create a situation to help boat owners cover their vessels?

G. How pricing strategy should be developed to increase revenue from lays days?

H. Should the City lease the boatyard to a private operator?

I. Should the City sponsor a boatyard forum at ComFish this year?

J. Should a professional economist be hired to:
a. Study the continued feasibility of the City running the boatyard?
b. If the boatyard is leased, what should the lease fee be?
c. Determine the boatyard's overall economic impact to the community.
d. Should the City accept operating the boatyard at a loss?
e. Determine how much addition sales tax revenue boatyard activity generates.
f. Should the sales tax cap be lifted in the boatyard?

12. Comments by Mike Terminel, Fleet Manager, Edison Chouest Offshore, Dec 2011

- "Kodiak's boatyard has a great thing going. It's a gem! The boatyard staff was very helpful. I've heard and experienced nothing negative about it. Here are my observations and suggestions:"
- One of our vessels, the Arctic Wolf, is a 140' landing craft and supports the oil and gas industry. It was the 10^{th} and largest vessel lifted in Kodiak. She needed paint, zinc and hull welding.

- The Arctic Wolf boatyard project went well, but not quite perfect. Kodiak weather can be bad, and it really was! We experienced wind, rain, ice, snow . . . all on the first morning. Unfortunate timing, but it is typical. The City needs to consider shelter and protection!
- Sheltering vessels for painting and welding was tough! I wasted too many days just figuring out how to cover the vessel. Harbor staff suggestions (Lon) were great but he could offer no materials or wind break. It was a big struggle but we did it.
- The City should facilitate the purchase of shelter materials -- movable walls, vans, or whatever. Rent them and make money. [HM note: A building would be ideal, but may not be immediately affordable. The PHAB is an advocate of procuring shelters, wind breaks, and/or buildings for the boatyard.]
- Boat owners need a place to store tools, equipment and supplies during the boatyard stay. Vans (20 or 40-footers) would work great. Spot one near each boat.
- Local welders are good, but too expensive. I brought in my own crew. More local competition would be healthy for Kodiak's economy and boatyard users.
- Local rental company is okay but not equipped to support a big boatyard. Need plenty of scaffold, moveable platforms, man lifts, welders, etc.
- Retail marine suppliers are adequate for in-water maintenance of fishing boats, but lack the depth and quantity to support a major boatyard operation. For example, not enough bottom paint, shafts, bearings, zincs, etc. on hand.
- **Hold a "town-meeting" to discuss the boatyard.**
  - Make a presentation. Explain what's going on at the boatyard from the City's perspective. [Consider sharing numbers: lift and service rates, revenue/expense statistics, or more)
  - Solicit ideas from the private sector.
  - Invite all business interested in supporting the yard, boat owners, hotels, restaurants, B&B, retailers, marine supply, tradesmen, etc.
  - What can the community offer to make outside vessel owners feel welcome?
  - How can City government facilitate economic activity in the boatyard
  - [HM's note: Consider holding a seminar at ComFish in April]
- Expand advertising beyond the commercial fishing to the oil and gas, tow boats, etc. Oil company executives and skippers don't read National Fishermen or Pacific fishing. Recommend that you consider other publications like: Professional Mariner, Workboat, Alaska Business Weekly, Petroleum News, and Alaska Journal of Commerce.
- Joint the Alaska Resource Development Council (ARDC). About $1,000 to joint. ARDC is an advocacy for Alaska industry. Ketchikan boatyard is a member. Talk to Carl Portman, the Alaska Resource Development Council executive director.

- US Coast Guard (USCG) was an issue. Response time between inspections slowed up progress unnecessarily. Suggest that you make them feel special and give them their own parking space in the boatyard. Please impress upon them how much they can hold up a project if they aren't on time your boatyard customers. Time is money and the USCG appeared to have no regard for the time wasted between inspections.
- If Seward gears up to home-port the off-shore Community Development Quota (CDQ) boats, the Kodiak Boatyard should boom. Keep your name out there.
- I used 15 rooms at the Best Western for three weeks. We ate in all the restaurants. It all worked fine but few people outside Kodiak know what Kodiak has to offer. Local business need to advertise more. Give [out of town boat owners] a warm-fuzzy about Kodiak. The new guy on the block needs to really advertise.
- **BOTTOM LINE:** I will use Kodiak's boatyard again for shipyard work on the Edison Chouest Offshore fleet.
- If Shell Oil gets a drill bit into the North Pacific, there will be another gold rush. Kodiak's boatyard needs to be ready to support the boom.

Background:

1. Kodiak's 660-ton Marine Travelift and boatyard became operational October 2, 2009.

2. The need was recognized years ago and took over a decade to plan and build. PND Engineers designed the facility and it was built by Pacific Pile and Marine. Major subcontractors included Brechan Enterprises, Tundra Plumbing and Local Electric. Total cost: $17.3 M. In this age of environmental awareness, Kodiak can boast that it sets a new standard. It is the only fully environmentally compliant boatyard on the West Coast.

3. Funding came from a number of sources and included a $5M revenue bond State and Federal grants total $7.3M. The remainder came from harbor retained earnings and the City water/sewer fund. Annual interest payments are about $245,000.

4. Long-trips to distant ports for boat maintenance are over. Crewmen are able to spend time in their home port while dry dock work is accomplished on their vessels. Owners are pleased with the lift, yard facilities and with the money they save when they "can do-it-themselves" or hire a contractor that they know and trust.

7. The fact that boat owners can do their own work, hire vendors of their own choosing and not travel to a distant yard for a haul out saves owners tens of thousands of dollars for fuel, lodging, labor, parts, etc. The "open yard" creates significant savings to an owner interested in managing his own boat project. However, some owners, mostly ones from out of town, find it difficult to manage a yard work and prefer a full service yard where all work is done by a team managed by the boatyard operator.

8. New jobs, new businesses and increased sales for the existing marine-related businesses are real. Quality Marine of Seward is relocating to Kodiak – others are making plans. Kodiak College revived its welder certification program and graduates are already working in the yard. Kodiak Marine Supply is selling hundreds of gallons of bottom paint. Just to name a few businesses profiting from increased work and sales. There are currently 25 vendors authorized to conduct business in the yard. They each pay $300 annually for the privilege to offer services and supplies in the yard.

9. The City's original business plan did not include operating the boatyard. The concept was to lease the facility to a private company in a very similar manner to leasing the crane and uplands at the City-owned Pier 3 cargo terminal. The City manages the contract but the facility is managed and operated by Horizon Lines of Alaska.

10. Over a year before the boatyard was to open, the City solicited for an operator. There was one solid response from an experienced boatyard operator (Puglia) in Washington State. A contract had not been negotiated but was in the process. Puglia's owner had full intended to operate the yard and offer a full array of services but unforeseen events in his business made it impossible for him to open and operate another yard and he backed out prior to signing a contract. So at the last minute, the Harbormaster was assigned the responsibility. The Harbormaster wrote policies, recommend

initial fees, personnel, and equipment were written, purchased and organized. The results have been excellent considering we started from scratch.

11. Kodiak is blessed with an experienced marine lift operator, Bill Feda, who is under contract to operate the machine and supervise blocking. Lon White, Kodiak's 30-year veteran deputy harbormaster, supervises the boatyard team and schedules lifts. He hired two new maintenance mechanics to assist with yard operations and maintenance. The Travelift is the largest crane in Alaska and requires substantial expertise to operate and maintain. The harbor office team has geared up to handle administrative details and, of course, billing.

12. Marketing and pricing strategy are under review.

13. The economic analysis done by Northern Economics, Inc in 2000 (2004 update) will be revisited in 2011.

13. A creative advertising plan was conceived by Robert Wilkes in 2009. It was recently revised and will continue through 2011.

II. GENERAL DESCRIPTION

1. Mission

To provide a boatyard facility that can accommodate large fishing vessels, thereby creating jobs and economic activity for the community of Kodiak consistent with the City Council's short- and long-term goals.

The City built a boatyard:

- to grow Kodiak's economic base
- to facilitate the fishing fleet's "below-the-waterline" maintenance needs
- to improve quality of life for Kodiak crewmen and their families
- to reduce the hemorrhage of Kodiak dollars out of the community
- to allow boat owners the flexibility to do their own work and/or hire their own vendors
- to encourage new business development in the marine trades

2. Facility

- 660-ton Marine Travelift
- lift piers
- environmentally compliant wash down pad
- support equipment (blocking, forklift, manlift, pressure washers, etc.)
- utilities

3. Form of ownership: Municipal, no partners.

4. History

A. The City of Kodiak's boatyard was envisioned in the early 90s when the Near Island quarry was opened to mine rock for the St. Herman Harbor (SHH) breakwater. As flat land was created and the breakwater became a reality in 1997 it became obvious that the protected deep waters would not only create excellent moorage for large fishing vessels, it could also serve as a haul-out site for a boatyard.

B. After a decade of planning, the boatyard became a reality in October 2009. Parties involved include the City Council, Port and Harbor Advisory Board, Harbormaster, City Engineer, City Manager and PND Engineers.

C. At least two feasibility studies were conducted by Northern Economics: One in 2001, and an update in 2004. They suggested a need and market that . . .

D. The yard currently occupies about five acres and will eventually encompass 13. Quarry operations in the NE section will be ongoing for many years. Three contractors, Brechan, Anderson, and DeHart, are currently mining.

E. Quarry expansion could eventually create sufficient land for vertical structures. For example, shops and bays for the marine trades and a structure large enough to work on large boats.

F. As originally conceived the boatyard would be operated by a private contractor. However, no contractor agreed to take on the operation. By default the Harbor Department set up the yard and currently operates and manages it. It adds a great deal of responsibility to the Harbormaster's job.

5. Most important strengths and core competencies.

- Kodiak is a fishing and fish processing community
- Kodiak's infrastructure includes massive harbor and port facilities
- Kodiak's location in the central Gulf of Alaska makes it a crossroads for logistic support to large numbers of transient vessels

6. Significant challenges faced now and in the near future.

- Breakeven by the 5th full year of operation
- Refine yard management team
- Lack of a building for welding painting and other maritime services
- Increase revenue to meet expenses and debt service (and depreciation expense?)

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III. PRODUCTS AND SERVICES

1. Services:

- Lift and launch vessels ranging between 50 and 180 feet, 42' beam, up to 660-tons
- Power wash (equipment only)
- Block for dry moorage
- Dry moorage
- Electric
- Waste disposal
- Select equipment (with City operator)

2. Competitive advantage

A. Kodiak's central location in the Gulf of Alaska and its proximity to the fisheries, trained and competent crewmen, fish processing plants, reliable/renewable source of energy, cargo terminals, a state airport, marine supplies, and a wide variety of maritime support businesses including welding, hydraulics, electronics, divers, painters, electricians, hardware, nets, wire rope, and much more.

B. Because of Kodiak's remote location there is little competition from other business or communities. Kodiak's 550-ton Travelift is the only one of its kind in the State of Alaska. The Travelift creates a distinct advantage in that vessel can be easily lifted and returned to the water. Traditional marine ways and submersible boat-lifts have much less flexibility.

3. Competitive disadvantage

A. Kodiak long, damp, cold weather, exacerbated by high winds . . . almost year-round. These environmental conditions seriously hamper boatyard work, especially welding and painting. Welding and paining are the key services that every big fishing boat must have. Weather can be mitigated by building temp structures (expensive) over boats, but the ultimate solution is a large building.

B. Kodiak is currently disadvantaged by the absence of service providers for large vessel maintenance. For example, there are not enough welders and there is no facility for large shaft machining or propeller repairs. With time, these types of business will move into Kodiak. Quality Marine, already has moved into Kodiak bringing about six employees, renting shop space, etc.

4. Pricing

A. Pricing for lift/launch and dry moorage in an "open yard" is complicated by the fact that Kodiak's business model, although typical of small private boatyards and low capacity municipal boatyards, has no precedence in publicly owned boatyards. The other eight boatyards with 660-ton Travelifts, are operated by "for-profit" full service boatyards. They earn their profit by providing boat services like welding, painting, mechanical, etc. Fees charged for boat haul-out is incidental. The case is completely opposite in Kodiak's situation as an "open yard."

B. The initial pricing was a starting point and management knew that rates would likely need adjustment after a year of operation. Introductory pricing (see next page) was established by the City Council on July 1, 2009.

C. The revenue generating capacity of the Kodiak boatyard was unknown because it was not know how many vessels would be lifted and only had estimates of the operating and depreciation expenses. With nine months of data however, a clearer picture is beginning to emerge. About 50 vessels will use the yard in its first full year of operation.

D. Three options for meeting the City Councils goal of breaking even by 2015 are presented in section VII.

Kodiak Boatyard Fee Schedule

(Extracted from the City schedule of fees and charges)

Lift, Block and Launch	**Original 2009**	**2011 Changes**
Vessels up to 80'	$40.00 per foot	44.00 per foot
81' to 100'	$45.00 per foot	50.00 per foot
101' to 120'	$55.00 per foot	60.00 per foot
121' to 150'	$65.00 per foot	71.00 per foot
151' and up	$70.00 per foot	77.00 per foot
After hours surcharge	+ 20% per foot	
Non-standard Lift (Operator and lift)	$1,500.00/hour	
Inspection Lift, includes 1 hour hang time free	75% of lift/launch	
Hang Time	$275/ea addl. hr	
Delay of Lift	$250.00/ half hr	
Pressure Wash (and scrape if necessary)	T, M & E*	
Reposition	50% of lift/launch	
Scheduling Deposit (Credited to lift or forfeited if the vessel is late or "no show.".	$ 750.00	
Dry Dockage Space (November 1-March 30	$1.75 per ft/day	2.20/ft/day
Dry Dockage Space (April 1 – October 31)		
Days 1 – 14	$1.75 per ft/day	
Days 15 – 28	$2.25 per ft/day	
Day 29 and beyond	$2.75 per ft/day	
On Site Storage		
Daily (First three days (or portion thereof) no charge)	$0.05/sq ft/day	
Minimum charge	$15.00	
Vendor (Vendors must be preapproved and have $1M liability coverage)		
Registration (Paid by vendor)	$300/year	
Daily vendor fee (Charged to vessel, two-hour grace for deliveries)	$50/day/worker	
Utilities (Includes water)		
120v single-phase 30 amp or actual kWh cost, whichever is greater	$15.00/day	
208v single-phase 50 amp or actual kWh cost, whichever is greater	$35.00/day	
208v three-phase 100 amp or actual kWh cost, whichever is greater	$40.00/day	
480v three-phase 100 amp or actual kWh cost, whichever is greater	$50.00/day	
Equipment Rental		
Fork lift	$75.00/half hour	
Man lift	$75.00/half hour	
Pressure Washer, 3 hour minimum $125.00 day maximum	$25.00/hour	
Other	T, M & E*	
Environmental Tarp (Ground tarp required for all bottom work)	Cost + 15%	
Waste Disposal		
Used oil	$1.00/gallon	
Dumpster	$100.00/tip	
Non-Hazardous liquids, including oil bilge water	$2.25/gallon	
Hazardous	Cost + 15%	
Other, i.e. metals and wood	Cost + 15%	
Labor		
City Employee, straight time	$65.00 per hour	
City Employee, overtime	$95.00 per hour	
Contract service provider (i.e. diver, lift operator, etc)	Cost + 15%	
Environmental Surcharge	2.5% of gross	
Other Fees and Services	Cost + 15%	

*__T__ = Time (labor); __M__ = Materials; __E__ = Equipment Hours

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IV. MARKETING

1. Market Research

A. The potential users for large travel lift in Kodiak encompasses a variety of vessel types, including those homeported in Kodiak, vessels operating in the western Gulf of Alaska, and vessels operating in, or transiting, to and from the Bering Sea and Aleutian Islands.

B. **Competing Facilities.** To avoid competing with existing, privately owned facilities in Kodiak, the new haulout facility caters to vessels exceeding 150 tons in weight. Vessels in the 150- to 660-ton weight class that might use this facility are serviced by a small number of facilities in Alaska, western Canada, Washington, and Oregon. These facilities include:

- **Dutch Harbor** offers services for vessels only in the water and a private submersible drydock.
- **King Cove** has a city-owned 150-ton Travelift and a 25 x 80-foot grid.
- **Seward**'s city-owned facilities include 50- and 250-ton Travelifts, and a 5,000-ton Syncrolift. The Syncrolift is City-owned but privately operated as a "closed yard."

- **Valdez** has a city-owned 60-ton Travelift and a tidal grid capable of handling vessels up to 120 feet or 250 gross tons.

- **Petersburg**'s public facilities include two tidal grids handling vessels up to 200 tons. Private facilities include a marine railway capable of handling vessels of up to 300 tons or 100 feet and a tidal grid handling vessels up to 45 feet.

- **Ketchikan's** private facilities include a 10,000-ton submersible dry dock. A second, smaller drydock was recently built.

- **Cordova** completed a 150-ton Travelift in 2009. It is city-owned and operated.

- **Puget Sound** in Washington is home to several private and public shipyards and Travelifts catering to large vessels.

C. Catering to vessels exceeding 150 tons minimizes competition with existing facilities and ensures that vessels using the lift are of sufficient size to justify use. Rates charged for vessel haulouts at these other facilities vary depending on vessel weight, vessel length, and duration that the vessel is out of the water.

2. Factors affecting travel lift use[1]

A. Number of facilities in Alaska, western Canada, Washington, and Oregon capable of handling vessels in the 150- to 600-ton weight class. Currently, only facilities in Seward, Ketchikan, the Puget Sound Region, Oregon, and British Columbia can lift vessels in this size range. Vessels exceeding 600 tons have to use the Syncrolift in Seward, the drydock in Ketchikan, or travel outside Alaska. Given that Seward operates a 250-ton lift, vessels in the 150-to 250-ton weight class that wish to be lifted in Southcentral Alaska could choose to be lifted in Seward or Kodiak. Vessels in the 250- to 660-ton weight class that wish to be lifted in Southcentral Alaska can choose Kodiak's travel lift or Seward's Syncrolift. Seward has environmental compliance issues and many abandoned vessels.

B. Location of Kodiak. The nearest facilities capable of handling vessels in the 150- ton 600-ton weight class are in Seward, 220 miles away. The only other facilities away are in Ketchikan, 1,000 miles away. West of Kodiak, there are no facilities capable of handling vessels of this size.

C. Number of facilities in Alaska, western Canada, Washington, and Oregon capable of handling vessels with beams of up to 42 feet. Vessels operating in and around Kodiak tend to have wide beams, and a travel lift sufficiently wide to handle a 42-foot beam would accommodate most of the fleet between 150 and 600 tons. Syncrolifts and drydocks at competing facilities would be capable of lifting vessels with these beams.

D. Cost to haul and service vessel in other areas of the state. There is a significant travel cost associated with bringing a vessel from the western Gulf of Alaska or Bering Sea to Southeast Alaska or the Pacific Northwest for maintenance and repair. For vessels from Western Alaska or operating in Western Alaska, it may be more cost-effective to travel to Kodiak to be serviced, rather than using facilities outside the region.

E. Vessels homeported in Kodiak. Vessels moored exclusively in Kodiak are likely to use Kodiak haulout facilities regardless of other available facilities so that vessel owners or operators can service their vessel without major travel costs to reach another port. The number of large vessels moored permanently in Kodiak may grow over time as the number of moorage spaces expands. Transient vessels are less likely to use Kodiak facilities; the market share is assumed to be 20 percent, but could likely range from 10 to 30 percent. These percentages may not be achieved in the first few years as the necessary services may not be available. These percentages are achievable with growth in the number of services and expertise in the local labor force.

F. **Location of Kodiak with respect to major fishing grounds in Southcentral and Southwest Alaska.** Proximity to fishing grounds may play a significant role in attracting vessels to Kodiak facilities. Vessels transiting between the Bering Sea or Alaska Peninsula to Seward or Kodiak may save a significant amount of time and money by being serviced in Kodiak rather than Seward or Puget Sound.

G. **Non-market factors.** Vessels in need of emergency repairs or needing attention for other unanticipated situations could utilize the haulout facilities in Kodiak. This study uses vessel data collected from several sources. The primary source of data is from the Kodiak Harbormaster's Office. Secondary sources, which are used to reinforce and verify the primary source, include Alaska Commercial Fisheries Entry Commission vessel license files, National Marine Fisheries Service license and permit files, and the U.S. Maritime Information System.

H. **A survey of large vessel owners** (Kodiak Chamber of Commerce 2000) provided information on the frequency that vessels are lifted for routine maintenance and repairs. Based on this information and an analysis of the fleet composition, Northern Economics, Inc. estimated that a 660-ton facility would lift approximately 88.6 vessels annually.

[1] Market research: Large Travelift Feasibility Study Update, September 2004, Northern Economics Inc, Anchorage, AK

3. Current Marketing and Advertising Plan

A. User brochure and info snail-mailed, e-mailed and also available on line.
   Enclosures:
   User application and terms
   Vendor application and terms
   Best management practices yard operating regulations
   Fee schedule and estimate worksheet

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Vessel work plan and user check list
Travelift specifications

B. Trade shows
Pacific Marine Expo, Seattle (November)
Boat Show, Seattle (January)
ComFish Kodiak (April)

C. Trade publications ads (Advertising plan and budget attached at appendix B)
National Fisherman
Workboat
Pacific Fishing
Fisherman's News
Western Mariner

D. Radio ads on public and commercial stations aired in coastal Alaska communities

E. Web based. The City/harbor web site has info about the boatyard including user and vendor applications, fees, policies, vendor lists, and more. It needs to be expanded and improved and is currently the weakest link in the marketing plan.

4. New marketing ideas. See Executive Summary.

5. Marketing Strategy

Make owners and operators of vessel between 150 and 660 tons operating in the coastal waters of Washington, Oregon, Western Canada, and Alaska aware of the fact the Kodiak has a 660-ton Travelift, state-of-the-art boatyard and vendors that offer a wide variety of maritime services.

6. Pricing Strategy

A. For any new business pricing is always a big concern. How much can be charged before boat owners find another boatyard. It is particularly problematic for a political subdivision like the City of Kodiak which needs to recover all operating expenses (at least) and depreciation expenses (desired), yet wants to encourage economic development across a broad spectrum of the local community.

B. Initial pricing was based upon a variety of factors and analysis and it is what it is. See section IV Marketing. The BIG question now is: What should prices be in the future.

C. As originally envisioned a private company would rent the facility, operate the lift and set the rates. Free enterprise principals would apply. Obviously, the yard operator would set rates sufficient to meet expenses and make a reasonable rate of return for the investors.

D. In Feb 2010, the Kodiak City Council adopted the following budget goals for the boatyard:

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"The Boatyard Fund will reach a breakeven point by the fifth full year of operation in FY2015, including adequate revenues to meet debt payments.

"The business plan and marketing campaign for services will continue to be developed and refined to capture maximum revenues."

E. The City Council's goal to capture "maximum revenue" suggests that rates should be increased to somewhere just short of "too expensive" which may prompt some owners to take the vessels to other boatyard. Or does the Council mean capture maximum "market share" for greater general economic impact to the community as a whole.

F. Capture "maximum revenue" suggests a pricing policy that is just below a threshold that will reduce the number of customers using the facility. For example, a private marina will set rates so the occupancy is about 90%. Mathematically this strategy will maximize revenue. If the marina is full, rates are too low, so raising rates until occupancy dips to 90% will maximize revenue and profit. The same logic could apply to the boatyard pricing policy.

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V. ECONOMIC IMPACT

1. Analysis of Boatyard Lift Impacts on Kodiak Economy

A. Boatyards (private or municipal) never pay for themselves through lift fees alone. The way to make a yard facility financially feasible is to have the proper facilities, services, and tax structures in place to provide additional fiscal and economic benefits to the community. By taking a whole economy perspective, boatyard can provide an economic benefit to a community.

B. Now that ownership and operation of the Kodiak Boatyard is decided, this section focuses on the entire boatyard operation. Dividing the responsibility between the City and a private operator would split the impacts, but now that the City owns and operates the yard, the impact is easier to predict.

2. Annual Economic Impacts

A. Northern Economics, Inc. studied and reported on the feasibility of operating a boatyard in Kodiak in 2000 and again in 2004. The impact data below was last analyzed in 2004 and should be revisited. Now that the yard is operating and will soon have one year's actual data to study, the actual economic impact can be calculated.

B. Per the current fee schedule, and assuming 50 lifts per year, the boatyard generates about $450,000 annually, plus at least $3.1 million and 38 jobs from direct and indirect repair, maintenance, and vessel haulout activities each year. It is likely that the number of lifts will rise over time to as many as 70, or more. One consultant suggested 90.

C. These estimates include use of the Travelift as well as any subsequent charges and other economic activity that takes place after a vessel is lifted. The construction phase resulted in $12 million of local economic activity and 75 direct and indirect jobs while the upland development took place.

C. The financial impact is limited to the operation and maintenance of the boatyard facility itself. Fiscal impacts add in taxes that would be generated as a result of labor and supplies being purchased by vessels undergoing maintenance.

D. The economic impact accounts for all other economic activity associated with increasing business in the community, both directly and indirectly. While a travel lift facility may operate at a financial loss and the additional business and sales taxes may not make up the difference, the resulting economic activity would provide a net benefit to the community as a whole.

3. Direct Impacts

A. In addition to the operating revenues and expenses presented, vessels undergoing maintenance might spend an average of $35,400 on labor and supplies according to an undated study conducted by the Kodiak Chamber of Commerce study. This study was done in the early 90s and costs have increased substantially. The number is probably closer to $75,000 today.

B. Spending would bring roughly $3.1[1] million (higher in today's dollars) into the community. While some of this repair activity may already be provided by local businesses, the ability to lift large fishing vessels enables a broader range of work to be done. Based on industry averages, maintenance and repair work generates as many as 32 direct jobs.

[1] Travelift Feasibility Study, September 2004, Northern Economics Inc, Anchorage, AK.

4. Indirect Impacts

A. The extent of indirect impacts from marine-related activities varies by the type of activity. Indirect impacts include additional sales (output), employments, labor income, and business taxes associated with additional economic activity from a travel lift facility and supporting services. For example, repair and maintenance activities tend to have indirect impacts of about 32 percent of the total direct spending (output). Businesses involved in construction activities tend to produce indirect impacts about 31 percent of the direct spending. Taking into account these indirect effects, it is possible to estimate the total impact marine-related lifting and repair activity may have on the community.

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B. The indirect impacts of vessel repair and maintenance spending are $533,000 [1], bringing the total economic activity retained in the community to about $2.9[1] million. These indirect impacts include about eight full-time or full-time-equivalent employees in addition to those who perform the maintenance work directly. However, the benefits are not limited to the businesses that work directly with vessels and vessel owners. Other types of businesses would also benefit from increased economic activity in the community.

C. Indirect impact can be recalculated by Northern Economics, Inc. in 2011

5. Additional Tax Revenues

In addition to increasing economic activity in the community, a boatyard will result in additional tax revenues collected by the City. However, because sales apply to only the first $750 of each sale, the incremental tax revenue is almost negligible. For example, the sales generated by the boatyard in its first year of operation will be about $420,000. Without a cap a 6% sales tax could net the City over $25,000 in new tax revenue. Because of the cap, sales tax is actually $2,250. Sales tax paid by boat owners at local business for work in the boatyard also has a minor impact for the same reason.

VI. Operational and Management Plan

1. The Kodiak Boatyard is operating as an "open yard." That means boat owners are free to work on their own vessels and/or hire vendors of their own choice.

2. Having the City Harbormaster operate the boatyard was NOT planned. The original concept was to lease the facility to a boatyard operator who could offer services and operate the machine for the City. Requests for proposals to find an operator resulted in one responder: Puglia Engineering. Puglia withdrew its offer just two months before the yard opened. Too late to solicit for another operator.

3. The operational concept that evolved, after Puglia's withdrawal, was for the Harbormaster and his department to operate and manage the boatyard. Two additional staff were hired and a local Travelift operator was contracted. This arrangement places a new burden on the Harbormaster and he now manages four enterprise funds.

4. Day-to-day operation of the yard falls to the deputy harbormaster. As the yard grows, the City should consider hiring a full-time yard manager/Travelift operator.

5. Every boatyards with 600-ton Marine Travelifts (except Kodiak) is privately owned. These "closed" yards create revenue by offering services to the boat owners once the vessel is lifted. Since Kodiak decided to operate an "open" yard and does not charge service providers a surcharge per/man-hour worked so there is no cash flow from the typical largest source. There is a small annual fee assessed to each vendor.

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VII. Financial Analysis and Plan. The income statement below shows the actual expenses and revenue for FY2011.

Kodiak Boatyard
FY 2011
REVENUE AND EXPENSE STATEMENT

		2011 Actual	
Number of boats lifted		44	Percentage
Revenues			
Lift-Haul-Block	210,048		46.6%
Lay days	125,690		27.9%
Yard Services	52,000		11.5%
Electric	33,303		7.4%
Environmental	10,778		2.4%
Vendor Fees	5,400		1.2%
Pressure Wash	9,800		2.2%
Other	3,649		0.8%
Total Revenue		$450,668	100%
Expenses			
Bond Interest	$240,267		35.2%
Interfund*	156,797		23.0%
Labor	116,032		17.0%
Insurance	47,120		6.9%
Advertising	31,370		4.6%
Professional/Legal	20,857		3.1%
Electric Power	19,972		2.9%
Capital Equipment	16,504		2.4%
R&M, Equipment	11,621		1.7%
Supplies	11,379		1.7%
Garbage	2,483		0.4%
Fuel (Travelift)	4,110		0.6%
Fuel (Heating	3,987		0.6%
Operating Expenses		$682,499	100%
Operating Margin (Loss)		($229,167)	
Depreciation (Non-cash		$530,000	

* Interfund: $9K City Admin; $15K Finance, $25K Public Works; $18K Engr; $89K Harbor

1. Construction and acquisition funds came from a variety of sources:

Federal EDA grant	$ 2.3
State DEC grant	4.0
Municipal revenue bond	5.0
Alaska Clean Water Fund	1.0
City Funds (Water/sewer/General)	1.7
Harbor Retained Earnings	3.3
Total	**$17.3 Million**

2. The City sold a $5M revenue bond to be repaid over 30 years. The annual interest expense for is $240,000 and is reflected in the attached proforma budgets. Revenue for the first full year of operation will be approximately $450,000. That amount is more than sufficient to meet the bond interest expense, but short of covering all expenses, especially depreciation ($530,000) the largest annual expense.

3. Depreciation is a non-cash expense. Depreciation is of great tax advantage to a private business but has no tax advantage to a municipal government enterprise fund like the boat yard. While depreciation is in many ways irrelevant for a public entity since it is not subject to taxation, Government Accounting Standards Board Statement 34 (GASB 34) still requires public entities to recognize it in their financial statements, presumably from the perspective of encouraging municipalities to think about asset value and replacement over time.

4. The original financial planning and analysis (proforma budgets) were based upon "introductory boatyard rates" established by the City Council in 2009. The introductory rates were based upon professional cost and revenue estimates from a variety of sources. Now that the City has a full year of revenue data and a better understanding of the expenses, a revenue-expense statement for FY2011 is included above Rate adjustments (+10 percent) were implemented July 1, 2011.

5. Most heavy lift boatyards charge for the services they provide, they have a significant source of revenue and lift fees are almost insignificant. Since the City of Kodiak does not offer boatyard services like welding, painting, etc. a consultant had suggested that a per head vendor fee apply to all workers. This fee would help offset the expenses of running the yard. Although it would be a source of substantial revenue, it would be an administrative nightmare to capture the data and collect the fee and it was deleted from the fee schedule. No revenue source was identified to replace it, so it will be included the lift rate revision.

6. Three proforma budgets are presented in Tables 1, 2 and 3. They all assume 1) that five more boats than the previous year for the first five years, 2) that expenses will increase 2% annually. 3) that fees will increase by 5, 10 or 15% respectively. These tables were not changed in this revision for the purposes of comparison.

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7. Option 1 (5% rate increase) demonstrates that revenue does not exceed operating expenses until FY15 and does not recover depreciation. Option 2 (10% rate increase) demonstrates that revenue exceeds operating expenses in FY14 but does not recover all of the depreciation expense. Option 3 (15% rate increase) demonstrates that revenue exceeds operating expenses in FY13 and recovers all of the non cash depreciation expense by FY15.

9. The boatyard is an economic development project. Municipal accounting rules require the City to depreciate all assets, even when a large portion of the investment is from grants (Fed plus state grants equal $6.2M.) However, the City is not obligated to collect the depreciation expense. That's a policy decision. The City should consider at least collecting depreciation on its out-of-pocket investment of nearly $10M.

Proforma Budget – Option 1

Assumptions: 5 additional boats per year
5% rate increase annually
2% annual expense increase

	FY10 35 boats	First year* 50 boats	FY 11	FY 12	FY13	FY14	FY15
Number of boats		50	55	60	65	70	75
Revenues							
Lift Haul Block	145,000	207,000	239,085	273,633	311,162	351,550	395,336
Yard Services	44,000	62,000	71,610	81,958	93,198	105,295	118,410
Lay days	91,000	130,000	150,150	171,847	195,415	220,780	248,279
Electric	21,000	30,000	34,650	39,657	45,096	50,949	57,295
Vendor Fees	5,400	5,670	5,954	6,251	6,564	6,892	7,237
Environmental Surcharge 2.5%	7,525	10,725	12,387	14,177	16,122	18,214	20,483
Revenue from operations	**313,925**	**445,395**	**513,836**	**587,523**	**667,556**	**753,682**	**847,039**
Expenses							
Labor		91,000	150,000	153,000	156,060	159,181	162,365
Professional Services		30,000	55,000	56,100	57,222	58,366	59,534
Goods and Services		90,000	150,000	153,000	156,060	159,181	162,365
Utilities		32,000	24,000	24,480	24,970	25,469	25,978
Bond interest expense		245,000	245,000	245,000	245,000	245,000	245,000
Inter-fund - harbor Dept		151,000	89,000	89,000	89,000	89,000	89,000
Interfund - other departments		0	67,000	67,000	67,000	67,000	67,000
Total Operating Expenses		**639,000**	**780,000**	**787,580**	**795,312**	**803,198**	**811,242**
Operating Margin		**(193,605)**	**(266,164)**	**(200,057)**	**(127,755)**	**(49,516)**	**35,797**
Machinery and Equipment	256,000		30,000	30,000	30,000	30,000	30,000
Depreciation Expenses	3,000	NA	350,000	350,000	350,000	350,000	350,000
Margin w/ depreciation expense			**(646,164)**	**(580,057)**	**(507,755)**	**(429,516)**	**(344,203)**
Sales tax with cap at $750	1,575	2,250	2,475	2,700	2,925	3,150	3,375
Sales tax with no cap	18,060	25,740	29,730	34,026	38,692	43,715	49,159

* First year actual revenue is based upon the actual revenue from the first 35 boats Oct 2009 to Jun 10. Plus another 15 vessels scheduled to be lifted between Jul and Oct 2010 -- after one full year of operation.

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Proforma Budget -- Option 2

Assumptions: 5 additional boats per year
10% rate increase annually
2% annual expense increase

	FY10	1st Year*	FY 11	FY 12	FY13	FY14	FY15
Number of boats		50	55	60	65	70	75
Revenues							
Lift Haul Block	145,000	207,000	250,470	300,314	357,764	423,449	498,865
Yard Services	44,000	62,000	75,020	89,949	107,156	126,830	149,419
Lay days	91,000	130,000	157,300	188,603	224,682	265,934	313,297
Electric	21,000	30,000	34,650	41,545	49,493	58,580	69,013
Vendor Fees	5,400	5,670	6,237	6,861	7,547	8,301	9,132
Environmental Surcharge 2.5%	7,525	10,725	12,936	15,510	18,477	21,870	25,765
Revenue from operations	**313,925**	**445,395**	**536,613**	**642,782**	**765,119**	**904,964**	**1,065,490**
Expenses							
Labor		91,000	150,000	153,000	156,060	159,181	162,365
Professional Services		30,000	55,000	56,100	57,222	58,366	59,534
Goods and Services		90,000	150,000	153,000	156,060	159,181	162,365
Utilities		32,000	24,000	24,480	24,970	25,469	25,978
Interest expense		245,000	245,000	245,000	245,000	245,000	245,000
Inter-fund - Harbor Dept		151,000	89,000	89,000	89,000	89,000	89,000
Interfund - Other departments		0	67,000	67,000	67,000	67,000	67,000
Total Operating Expenses		**639,000**	**780,000**	**787,580**	**795,312**	**803,198**	**811,242**
Operating Margin		**(193,605)**	**(243,387)**	**(144,798)**	**(30,192)**	**101,766**	**254,248**
Machinery and Equipment	256,000		30,000	30,000	30,000	30,000	30,000
Depreciation Expenses	3,000	NA	350,000	350,000	350,000	350,000	350,000
Margin w/ depreciation expense			**(623,387)**	**(524,798)**	**(410,192)**	**(278,234)**	**(125,752)**
Sales tax with cap at $750	1,575	2,250	2,475	2,700	2,925	3,150	3,375
Sales tax with no cap	18,060	25,740	31,046	37,225	44,346	52,488	61,836

* First year actual revenue is based upon the actual revenue from the first 35 boats Oct 2009 to Jun 10. Plus another 15 vessels scheduled to be lifted between Jul and Oct 2010 -- after one full year of operation.

Proforma Budget – Option 3

Assumptions: 5 additional boats per year
15% rate increase annually
2% annual expense increase

	FY10	1st Year*	FY 11	FY 12	FY13	FY14	FY15
Number of boats		50	55	60	65	70	75
Revenues							
Lift Haul Block	145,000	207,000	261,855	328,235	408,801	505,850	623,030
Yard Services	44,000	62,000	78,430	98,312	122,443	151,511	186,608
Lay days	91,000	130,000	164,450	206,138	256,735	317,683	391,275
Electric	21,000	30,000	37,950	47,570	59,246	73,312	90,294
Vendor Fees	5,400	6,210	7,142	8,213	9,445	10,861	12,491
Environmental Surcharge 2.5%	7,525	10,725	13,567	17,006	21,181	26,209	32,280
Revenue from operations	**313,925**	**445,935**	**563,394**	**705,475**	**877,850**	**1,085,426**	**1,335,978**
Expenses							
Labor		91,000	150,000	153,000	156,060	159,181	162,365
Professional Services		30,000	55,000	56,100	57,222	58,366	59,534
Goods and Services		90,000	150,000	153,000	156,060	159,181	162,365
Utilities		32,000	24,000	24,480	24,970	25,469	25,978
Bond interest expense		245,000	245,000	245,000	245,000	245,000	245,000
Inter-fund - Harbor Dept		151,000	89,000	89,000	89,000	89,000	89,000
Interfund - Other departments		0	67,000	67,000	67,000	67,000	67,000
Total Operating Expenses	**NA**	**639,000**	**780,000**	**787,580**	**795,312**	**803,198**	**811,242**
Operating Margin		**(193,065)**	**(216,606)**	**(82,105)**	**82,538**	**282,228**	**524,736**
Machinery and Equipment	256,000		30,000	30,000	30,000	30,000	30,000
Depreciation Expenses	3,000	NA	350,000	350,000	350,000	350,000	350,000
Margin w/ depreciation expense			**(596,606)**	**(462,105)**	**(297,462)**	**(97,772)**	**144,736**
Sales tax with cap at $750	1,575	2,250	2,475	2,700	2,925	3,150	3,375
Sales tax with no cap	18,060	25,740	32,561	40,815	50,833	62,901	77,472

* First year actual revenue is based upon the actual revenue from the first 35 boats Oct 2009 to Jun 10. Plus another 15 vessels scheduled to be lifted between Jul and Oct 2010 -- after one full year of operation.

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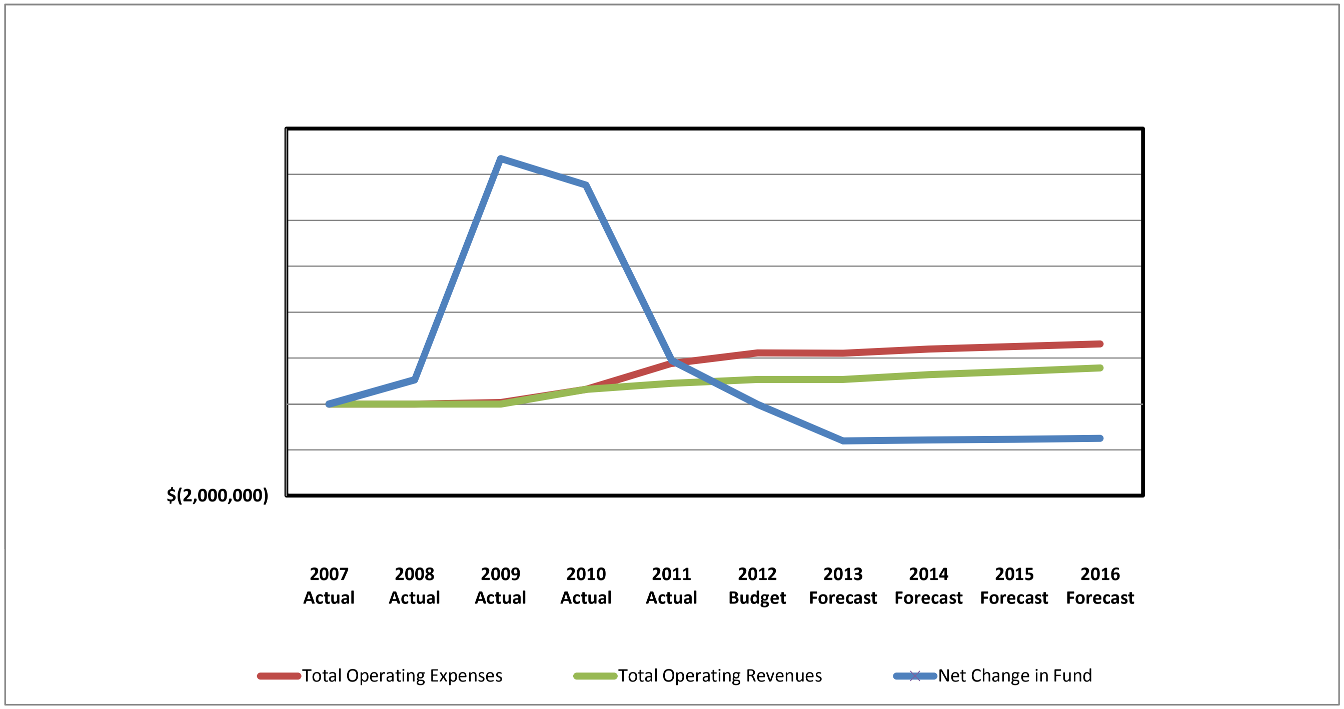
Forecast Analysis - Income Statement with forecast values along a linear trend using existing values 2007-2012

Boat Yard Lift	Actual	Actual	Actual	Actual	Actual	Budget	Forecast	Forecast	Forecast	Forecast
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Fund Revenues										
Haul/Launch/Block	-	-	-	145,353	210,048	250,000	250,000	250,000	250,000	250,000
Yard Services				42,927	52,000	70,000	70,000	70,000	70,000	70,000
Lay Days				90,749	125,690	150,000	150,000	150,000	150,000	150,000
Electricity				20,664	33,303	30,000	30,000	30,000	30,000	30,000
Pressure Wash				3,425	9,800	12,500	12,500	12,500	12,500	12,500
Other	-	-	-	17,455	16,767	20,000	20,000	20,000	20,000	20,000
Total Operating Revenues	**-**	**-**	**-**	**320,574**	**447,607**	**532,500**	**532,500**	**532,500**	**532,500**	**532,500**
Fund Operating Expenses										
Salaries & Benefits	-	-	-	79,994	159,037	200,410	205,420	210,431	215,441	220,451
Professional Services	-	-	16,184	27,477	76,838	55,000	56,375	57,750	59,125	60,500
Support Goods & Services	-	-	1,518	120,080	97,895	96,500	98,913	101,325	103,738	106,150
Utility Services	-	-	-	-	-	44,250	45,000	45,750	46,500	47,250
Capital Outlays	-	-	17,302	74,397	16,504	10,000	3,496	3,000	3,000	3,000
Interfund Charges	-	-	-	-	-	176,582	180,000	180,000	180,000	180,000
Repairs & Maintenance	-	-	-	14,329	-	-	-	-	-	-
Depreciation	-	-	-	2,499	529,981	530,000	530,000	530,000	530,000	530,000
Total Operating Expenses	**-**	**-**	**35,004**	**318,776**	**880,255**	**1,112,742**	**1,119,204**	**1,128,256**	**1,137,803**	**1,147,351**
Earnings (loss) from Operations	**-**	**-**	**(35,004)**	**1,798**	**(432,648)**	**(580,242)**	**(586,704)**	**(595,756)**	**(605,303)**	**(614,851)**
Nonoperating Revenue (Expenses)										
Investment Income	-	-	7,671	21,211	(17,509)	5,000	5,000	5,000	5,000	5,000
Interest Expense	-	-	-	(210,201)	(240,267)	(240,000)	(240,000)	(240,000)	(240,000)	(240,000)
State PERS Relief	-	-	-	2,531	6,990	7,430	7,000	7,000	7,000	7,000
Other	-	-	-	-	-	-	-	-	-	-
Net Nonoperating Revenue (Expenses)	**-**	**-**	**7,671**	**(186,459)**	**(250,786)**	**(227,570)**	**(228,000)**	**(228,000)**	**(228,000)**	**(228,000)**
Earning (loss) Before Transfers	**-**	**-**	**(27,333)**	**(184,661)**	**(683,434)**	**(807,812)**	**(814,704)**	**(823,756)**	**(833,303)**	**(842,851)**
Other Financing Sources (Uses)										
Capital Contributions	-	474,822	5,370,718	-	-	-	-	-	-	-
Transfers In	-	50,000	-	4,945,260	1,629,670	800,000	-	-	-	-
Transfers Out	-	-	-	-	-	-	-	-	-	-
Net Change in Fund	**-**	**524,822**	**5,343,385**	**4,760,599**	**946,236**	**(7,812)**	**(814,704)**	**(823,756)**	**(833,303)**	**(842,851)**
Net Assets at Beginning of Year	**-**	**-**	**524,822**	**5,868,207**	**10,628,806**	**11,575,041**	**11,567,229**	**10,752,526**	**9,928,770**	**9,095,467**
Net Assets at End of Year	**-**	**524,822**	**5,868,207**	**10,628,806**	**11,575,041**	**11,567,229**	**10,752,526**	**9,928,770**	**9,095,467**	**8,252,616**
Add in Depreciation	-	-	-	2,499	529,981	530,000	530,000	530,000	530,000	530,000
Less Invested in Capital	-	-	7,918,027	12,246,602	11,833,121	11,593,121	11,353,121	11,113,121	10,873,121	10,633,121
Restricted for Debt	-	375,469	375,469	375,469	375,469	375,469	375,469	375,469	375,469	375,469
Available Balance	**-**	**149,353**	**(2,425,289)**	**(1,990,766)**	**(103,568)**	**128,639**	**(446,064)**	**(1,029,820)**	**(1,623,123)**	**(2,225,974)**

Boat Yard Lift	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Budget 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast 2016
Total Operating Expenses	-	-	35,004	318,776	880,255	1,112,742	1,119,204	1,128,256	1,137,803	1,147,351
Total Operating Revenues	-	-	-	320,574	447,607	532,500	532,500	532,500	532,500	532,500
Net Change in Fund	-	524,822	5,343,385	4,760,599	946,236	(7,812)	(814,704)	(823,756)	(833,303)	(842,851)



Budget	**8514 Boat Yard**	**$ 18,700,000**	9%	$ 1,700,000	Transfer from General Fund - 100
			21%	$ 4,000,000	State EVOS Grant
			12%	$ 2,300,000	Federal Grant
			2%	$ 400,000	Transfer from Water Capital - 305
			2%	$ 400,000	Transfer from Sewer Capital - 306
			5%	$ 930,000	Alaska Clean Water Loan - 570
			27%	$ 5,000,000	Transfer Bond Funds - 512
			6%	$ 1,200,000	Transfer from Harbor Fund - 510
			15%	$ 2,770,000	Use of Fund Balance
	Total Cost	**$ 17,615,905**			

Elements of a Business Plan

The Seven Major sections of a business plan:

1. Executive Summary

Within the overall outline of the business plan, the executive summary will follow the title page. The summary should tell the reader what you want. Clearly state what you're asking for in the summary.

The statement should be kept short and businesslike, probably no more than half a page. IKey elements that should be included are:

1. ***Business concept.*** Describes the business, its product and the market it will serve. It should point out just exactly what will be sold, to whom and why the business will hold a competitive advantage.
2. ***Financial features.*** Highlights the important financial points of the business including sales, profits, cash flows and return on investment.
3. ***Financial requirements.*** Clearly states the capital needed to start the business and to expand. It should detail how the capital will be used, and indentify all funding sources.
4. ***Current business position.*** Furnishes relevant information about the government enterprise fund, its legal form of operation, when it was formed, and key personnel.
5. ***Major achievements.*** Details any developments within the government enterprise fund that are essential to the success of the business. Major achievements include items like equipment, location of a facility, any crucial contracts that need to be in place for product development, or results from any test marketing that has been conducted.

When writing your statement of purpose, don't waste words. Make it easy for the reader to realize at first glance both your needs and capabilities.

2. Business Description

The business description usually begins with a short description of the industry. When describing the industry, discuss the present outlook as well as future possibilities. You should also provide information on all the various markets within the industry, including any new products or developments that will benefit or adversely affect your business. Base all of your observations on reliable data and be sure to footnote sources of information as appropriate. This is important if you're seeking funding; the investor will want to know just how dependable your information is, and won't risk money on assumptions or conjecture.

When describing your business, the first thing you need to concentrate on is its structure. By structure we mean the type of operation, i.e. wholesale, retail, food service, manufacturing or service-oriented. Also state whether the business is new or already established.

In addition to structure, legal form should be reiterated once again. Detail whether the business is a government enterprise fund, sole proprietorship, partnership or corporation, who its principals are, and what they will bring to the business.

You should also mention who you will sell to, how the product will be distributed, and the business's support systems. Support may come in the form of advertising, promotions and customer service.

Once you've described the business, you need to describe the products or services you intend to market. The product description statement should be complete enough to give the reader a clear idea of your intentions. You may want to emphasize any unique features or variations from concepts that can typically be found in the industry.

Be specific in showing how you will give your business a competitive edge. For example, your business will be better because you will supply a full line of products; competitor A doesn't have a full line. You're going to provide service after the sale; competitor B doesn't support anything he sells. Your merchandise will be of higher quality.

How Will It Profit?

Explain the factors you think will make it successful, like the following: it's a well-organized business, it will have state-of-the-art equipment, its location is exceptional, the market is ready for it, and it's a dynamite product at a fair price.

Show how you will expand your business or be able to create something by using that money.

Show why your business is going to be profitable. Factors that support your claims for success can be mentioned briefly; they will be detailed later. Give the reader an idea of the experience of the other key people in the business. They'll want to know what suppliers or experts you've spoken to about your business and their response to your idea. They may even ask you to clarify your choice of location or reasons for selling this particular product.

While you may need to have a lengthy business description in some cases, it's our opinion that a short statement conveys the required information in a much more effective manner. It doesn't attempt to hold the reader's attention for an extended period of time.

3. Market Strategies

Define Your Market

Market strategies are the result of a meticulous market analysis. A market analysis forces the government to become familiar with all aspects of the market so that the target market can be defined and the government enterprise fund can be positioned in order to garner its share of sales. A market analysis also enables the government to establish pricing, distribution and promotional strategies that will allow the government enterprise fund to become profitable within a competitive environment. In addition, it provides an indication of the growth potential within the industry, and this will allow you to develop your own estimates for the future of your business.

Begin your market analysis by defining the market in terms of size, structure, growth prospects, trends and sales potential.

The total aggregate sales of your competitors will provide you with a fairly accurate estimate of the total potential market. Once the size of the market has been determined, the next step is to define the target market. The target market narrows down the total market by concentrating on segmentation factors that will determine the total addressable market--the total number of users within the sphere of the business's influence. The segmentation factors can be geographic, customer attributes or product-oriented.

Once the target market has been detailed, it needs to be further defined to determine the total feasible market. This can be done in several ways, but most professional planners will delineate the feasible market by concentrating on product segmentation factors that may produce gaps within the market. It's important to understand that the total feasible market is the portion of the market that can be captured provided every condition within the environment is perfect and there is very little competition. In most industries this is simply not the case. There are other factors that will affect the share of the feasible market a business can reasonably obtain. These factors are usually tied to the structure of the industry, the impact of competition, strategies for market penetration and continued growth, and the amount of capital the business is willing to spend in order to increase its market share.

Projecting Market Share

Arriving at a projection of the market share for a business plan is very much a subjective estimate. It's based on not only an analysis of the market but on highly targeted and competitive distribution, pricing and promotional strategies. How effectively you can achieve your distribution, pricing and promotional goals determines the extent to which you will be able to garner market share.

For a business plan, you must be able to estimate market share for the time period the plan will cover. In order to project market share over the time frame of the business plan, you'll need to consider two factors:

1. *Industry growth which will increase the total number of users.* Most projections utilize a minimum of two growth models by defining different industry sales scenarios. The industry sales scenarios should be based on leading indicators of industry sales, which will most likely include industry sales, industry segment sales, demographic data and historical precedence.
2. *Conversion of users from the total feasible market.* This is based on a sales cycle similar to a product life cycle where you have five distinct stages: early pioneer users, early users, early majority users, late majority users and late users. Using conversion rates, market growth will continue to increase your market share during the period from early pioneers to early majority users, level off through late majority users, and decline with late users.

Defining the market is but one step in your analysis. With the information you've gained through market research, you need to develop strategies that will allow you to fulfill your objectives.

Positioning Your Business

When discussing market strategy, it's inevitable that positioning will be brought up. A government enterprise fund's positioning strategy is affected by a number of variables that are closely tied to the motivations and requirements of target customers within as well as the actions of primary competitors.

Before a product can be positioned, you need to answer several strategic questions such as:

1. How are your competitors positioning themselves?
2. What specific attributes does your product have that your competitors' don't?
3. What customer needs does your product fulfill?

Once you've answered your strategic questions based on research of the market, you can then begin to develop your positioning strategy and illustrate that in your business plan. A positioning statement for a business plan doesn't have to be long or elaborate. It should merely point out exactly how you want your product perceived by both customers and the competition.

Pricing

How you price your product is important because it will have a direct effect on the success of your business. Though pricing strategy and computations can be complex, the basic rules of pricing are straightforward:

1. All prices must cover costs.
2. The best and most effective way of lowering your sales prices is to lower costs.
3. Your prices must reflect the dynamics of cost, demand, changes in the market and response to your competition.
4. Prices must be established to assure sales. Don't price against a competitive operation alone. Rather, price to sell.
5. Product utility, longevity, maintenance and end use must be judged continually, and target prices adjusted accordingly.
6. Prices must be set to preserve order in the marketplace.

There are many methods of establishing prices available to you:

- *Cost-plus pricing.* Used mainly by manufacturers, cost-plus pricing assures that all costs, both fixed and variable, are covered and the desired profit percentage is attained.
- *Demand pricing.* Used by companies that sell their product through a variety of sources at differing prices based on demand.
- *Competitive pricing.* Used by companies that are entering a market where there is already an established price and it is difficult to differentiate one product from another.
- *Markup pricing.* Used mainly by retailers, markup pricing is calculated by adding your desired profit to the cost of the product. Each method listed above has its strengths and weaknesses.

Distribution

Distribution includes the entire process of moving the product from the factory to the end user. The type of distribution network you choose will depend upon the industry and the size of the market. A good way to make your decision is to analyze your competitors to determine the channels they are using, and then decide whether to use the same type of channel or an alternative that may provide you with a strategic advantage.

Some of the more common distribution channels include:

- *Direct sales.* The most effective distribution channel is to sell directly to the end-user.
- *OEM (original equipment manufacturer)* sales. When your product is sold to the OEM, it is incorporated into their finished product and it is distributed to the end user.

- *Manufacturer's representatives.* One of the best ways to distribute a product, manufacturer's reps, as they are known, are salespeople who operate out of agencies that handle an assortment of complementary products and divide their selling time among them.
- *Wholesale distributors.* Using this channel, a manufacturer sells to a wholesaler, who in turn sells it to a retailer or other agent for further distribution through the channel until it reaches the end user.
- *Brokers.* Third-party distributors who often buy directly from the distributor or wholesaler and sell to retailers or end users.
- *Retail distributors.* Distributing a product through this channel is important if the end user of your product is the general consuming public.
- *Direct Mail.* Selling to the end user using a direct mail campaign.

As we've mentioned already, the distribution strategy you choose for your product will be based on several factors that include the channels being used by your competition, your pricing strategy and your own internal resources.

Promotion Plan

With a distribution strategy formed, you must develop a promotion plan. The promotion strategy in its most basic form is the controlled distribution of communication designed to sell your product or service. In order to accomplish this, the promotion strategy encompasses every marketing tool utilized in the communication effort. This includes:

- *Advertising.* Includes the advertising budget, creative message(s), and at least the first quarter's media schedule.
- *Packaging.* Provides a description of the packaging strategy. If available, mockups of any labels, trademarks or service marks should be included.
- *Public relations.* A complete account of the publicity strategy including a list of media that will be approached as well as a schedule of planned events.
- *Sales promotions.* Establishes the strategies used to support the sales message. This includes a description of collateral marketing material as well as a schedule of planned promotional activities such as special sales, coupons, contests and premium awards.
- *Personal sales.* An outline of the sales strategy including pricing procedures, returns and adjustment rules, sales presentation methods, lead generation, customer service policies, salesperson compensation, and salesperson market responsibilities.

Sales Potential

Once the market has been researched and analyzed, conclusions need to be developed that will supply a quantitative outlook concerning the potential of the business. The first financial projection within the business plan must be formed utilizing the information drawn from defining the market, positioning the product, pricing, distribution, and strategies for sales. The sales or revenue model charts the potential for the product, as well as the business, over a set period of time. Most business plans will project revenue for up to three years, although five-year projections are becoming increasingly popular among lenders.

When developing the revenue model for the business plan, the equation used to project sales is fairly simple. It consists of the total number of customers and the average revenue from each customer. In the equation, "T" represents the total number of people, "A" represents the average revenue per customer, and "S" represents the sales projection. The equation for projecting sales is: (T) (A) = S

Using this equation, the annual sales for each year projected within the business plan can be developed. Of course, there are other factors that you'll need to evaluate from the revenue model. Since the revenue model is a table illustrating the source for all income, every segment of the target market that is treated differently must be accounted for. In order to determine any differences, the various strategies utilized in order to sell the product have to be considered. As we've already mentioned, those strategies include distribution, pricing and promotion.

4. Competitive Analysis

Identify and Analyze The Competition

The competitive analysis is a statement of the business strategy and how it relates to the competition. The purpose of the competitive analysis is to determine the strengths and weaknesses of the competitors within your market, strategies that will provide you with a distinct advantage, the barriers that can be developed in order to prevent competition from entering your market, and any weaknesses that can be exploited within the product development cycle.

The first step in a competitor analysis is to identify the current and potential competition. There are essentially two ways you can identify competitors. The first is to look at the market from the customer's viewpoint and group all your competitors by the degree to which they contend for the buyer's dollar. The second method is to group competitors according to their various competitive strategies so you understand what motivates them.

Once you've grouped your competitors, you can start to analyze their strategies and identify the areas where they're most vulnerable. This can be done through an examination of your competitors' weaknesses and strengths. A competitor's strengths and weaknesses are usually based on the presence and absence of key assets and skills needed to compete in the market.

To determine just what constitutes a key asset or skill within an industry, David A. Aaker in his book, *Developing Business Strategies*, suggests concentrating your efforts in four areas:

1. The reasons behind successful as well as unsuccessful firms
2. Prime customer motivators
3. Major component costs
4. Industry mobility barriers

According to theory, the performance of a government enterprise fund within a market is directly related to the possession of key assets and skills. Therefore, an analysis of strong performers should reveal the causes behind such a successful track record. This analysis, in conjunction with an examination of unsuccessful companies and the reasons behind their failure, should provide a good idea of just what key assets and skills are needed to be successful within a given industry and market segment.

Through your competitor analysis, you will also have to create a marketing strategy that will generate an asset or skill competitors don't have, which will provide you with a distinct and enduring competitive advantage. Since competitive advantages are developed from key assets and skills, you should sit down and put together a competitive strength grid. This is a scale that lists all your major competitors or strategic groups based upon their applicable assets and skills and how your own government enterprise fund fits on this scale.

Create a Competitive Strength Grid

To put together a competitive strength grid, list all the key assets and skills down the left margin of a piece of paper. Along the top, write down two column headers: "weakness" and "strength." In each asset or skill category, place all the competitors that have weaknesses in that particular category under the weakness column, and all those that have strengths in that specific category in the strength column. After you've finished, you'll be able to determine just where you stand in relation to the other firms competing in your industry.

Once you've established the key assets and skills necessary to succeed in this business and have defined your distinct competitive advantage, you need to communicate them in a strategic form that will attract market share as well as defend it. Competitive strategies usually fall into these five areas:

- Product
- Distribution
- Pricing
- Promotion
- Advertising

Many of the factors leading to the formation of a strategy should already have been highlighted in previous sections, specifically in marketing strategies. Strategies primarily revolve around establishing the point of entry in the product life cycle and an endurable competitive advantage. As we've already discussed, this involves defining the elements that will set your product or service apart from your competitors or strategic groups. You need to establish this competitive advantage clearly so the reader understands not only how you will accomplish your goals, but also why your strategy will work.

5. Design and Development Plan

The purpose of the design and development plan section is to provide investors with a description of the product's design, chart its development within the context of production, marketing and the government enterprise fund itself, and create a development budget that will enable the government enterprise fund to reach its goals.

There are generally three areas you'll cover in the development plan section:

- Product development
- Market development
- Organizational development

Each of these elements needs to be examined from the funding of the plan to the point where the business begins to experience a continuous income. Although these elements will differ in nature concerning their content, each will be based on structure and goals.

The first step in the development process is setting goals for the overall development plan. From your analysis of the market and competition, most of the product, market and organizational development goals will be readily apparent. Each goal you define should have certain characteristics. Your goals should be quantifiable in order to set up time lines, directed so they relate to the success of the business, consequential so they have impact upon the government enterprise fund, and feasible so that they aren't beyond the bounds of actual completion.

Goals For Product Development

Goals for product development should center on the *technical* as well as the *marketing* aspects of the product so that you have a focused outline from which the development team can work. For example, a goal for product development of a microbrewer beer might be "Produce recipe for premium lager beer" or "Create packaging for premium lager beer." In terms of market development, a goal might be, "Develop collateral marketing material." Organizational goals would center on the acquisition of expertise in order to attain your product and market-development goals. This expertise usually needs to be present in areas of key assets that provide a competitive advantage. Without the necessary expertise, the chances of bringing a product successfully to market diminish.

Procedures

With your goals set and expertise in place, you need to form a set of procedural tasks or work assignments for each area of the development plan. Procedures will have to be developed for product development, market development, and organization development. In some cases, product and organization can be combined if the list of procedures is short enough.

Procedures should include how resources will be allocated, who is in charge of accomplishing each goal, and how everything will interact. For example, to produce a recipe for a premium lager beer, you would need to do the following:

- Gather ingredients.
- Determine optimum malting process.
- Gauge mashing temperature.
- Boil wort and evaluate which hops provide the best flavor.
- Determine yeast amounts and fermentation period.
- Determine aging period.
- Carbonate the beer.
- Decide whether or not to pasteurize the beer.

The development of procedures provides a list of work assignments that need to be accomplished, but one thing it doesn't provide is the stages of development that coordinate the work assignments within the overall development plan. To do this, you first need to amend the work assignments created in the procedures section so that all the individual work elements are accounted for in the development plan. The next stage involves setting deliverable dates for components as well as the finished product for testing purposes. There are primarily three steps you need to go through before the product is ready for final delivery:

1. *Preliminary product review*. All the product's features and specifications are checked.
2. *Critical product review*. All the key elements of the product are checked and gauged against the development schedule to make sure everything is going according to plan.
3. *Final product review*. All elements of the product are checked against goals to assure the integrity of the prototype.

Scheduling and Costs

This is one of the most important elements in the development plan. Scheduling includes all of the key work elements as well as the stages the product must pass through before customer delivery. It should also be tied to the development budget so that expenses can be tracked. But its main purpose is to establish time frames for completion of all work assignments and juxtapose them within the stages through which the product must pass. When producing the schedule, provide a column for each procedural task, how long it takes, start date and stop date. If you want to provide a number for each task, include a column in the schedule for the task number.

Development Budget

That leads us into a discussion of the development budget. When forming your development budget, you need to take into account all the expenses required to design the product and to take it from prototype to production.

Costs that should be included in the development budget include:

- *Material*. All raw materials used in the development of the product.
- *Direct labor*. All labor costs associated with the development of the product.
- *Overhead*. All overhead expenses required to operate the business during the development phase such as taxes, rent, phone, utilities, office supplies, etc.
- *G&A costs*. The salaries of executive and administrative personnel along with any other office support functions.
- *Marketing & sales*. The salaries of marketing personnel required to develop pre-promotional materials and plan the marketing campaign that should begin prior to delivery of the product.
- *Professional services*. Those costs associated with the consultation of outside experts such as accountants, lawyers, and business consultants.
- *Miscellaneous Costs*. Costs that are related to product development.
- *Capital equipment*. To determine the capital requirements for the development budget, you first have to establish what type of equipment you will need, whether you will acquire the equipment or use outside contractors, and finally, if you decide to acquire the equipment, whether you will lease or purchase it.

Personnel

As we mentioned already, the government enterprise fund has to have the proper expertise in key areas to succeed; however, not every government enterprise fund will start a business with the expertise required in every key area. Therefore, the proper personnel have to be recruited, integrated into the development process, and managed so that everyone forms a team focused on the achievement of the development goals.

Before you begin recruiting, however, you should determine which areas within the development process will require the addition of personnel. This can be done by reviewing the goals of your development plan to establish key areas that need attention. After you have an idea of the positions that need to be filled, you should produce a job description and job specification.

Once you've hired the proper personnel, you need to integrate them into the development process by assigning tasks from the work assignments you've developed. Finally, the whole team needs to know what their role is within the government enterprise fund and how each interrelates with every position within the development team. In order to do this, you should develop an organizational chart for your development team.

Assessing Risks

Finally, the risks involved in developing the product should be assessed and a plan developed to address each one. The risks during the development stage will usually center on technical development of the product, marketing, personnel requirements, and financial problems. By identifying and addressing each of the perceived risks during the development period, you will allay some of your major fears concerning the project and those of investors as well.

6. Operations and Management Plan

The operations and management plan is designed to describe just how the business functions on a continuing basis. The operations plan will highlight the logistics of the organization such as the various responsibilities of the management team, the tasks assigned to each division within the government enterprise fund, and capital and expense requirements related to the operations of the business. In fact, within the operations plan you'll develop the next set of financial tables that will supply the foundation for the "Financial Components" section.

The financial tables that you'll develop within the operations plan include:

- The operating expense table
- The capital requirements table
- The cost of goods table

There are two areas that need to be accounted for when planning the operations of your government enterprise fund. The first area is the organizational structure of the government enterprise fund, and the second is the expense and capital requirements associated with its operation.

Organizational Structure

The organizational structure of the government enterprise fund is an essential element within a business plan because it provides a basis from which to project operating expenses. This is critical to the formation of financial statements, which are heavily scrutinized by investors; therefore, the organizational structure has to be well-defined and based within a realistic framework given the parameters of the business.

Although every government enterprise fund will differ in its organizational structure, most can be divided into several broad areas that include:

- Marketing and sales (includes customer relations and service)
- Production (including quality assurance)
- Research and development
- Administration

These are very broad classifications and it's important to keep in mind that not every business can be divided in this manner. In fact, every business is different, and each one must be structured according to its own requirements and goals.

The four stages for organizing a business are:

1. Establish a list of the tasks using the broadest of classifications possible.
2. Organize these tasks into departments that produce an efficient line of communications between staff and management.
3. Determine the type of personnel required to perform each task.
4. Establish the function of each task and how it will relate to the generation of revenue within the government enterprise fund.

Calculate Your Personnel Numbers

Once you've structured your business, however, you need to consider your overall goals and the number of personnel required to reach those goals. In order to determine the number of employees you'll need to meet the goals you've set for your business, you'll need to apply the following equation to each department listed in your organizational structure: *C / S = P*

In this equation, C represents the total number of customers, S represents the total number of customers that can be served by each employee, and P represents the personnel requirements. For instance, if the number of customers for first year sales is projected at 10,110 and one marketing employee is required for every 200 customers, you would need 51 employees within the marketing department: *10,110 / 200 = 51*

Once you calculate the number of employees that you'll need for your organization, you'll need to determine the labor expense. The factors that need to be considered when calculating labor expense (LE) are the personnel requirements (P) for each department multiplied by the employee salary level (SL). Therefore, the equation would be: *P * SL = LE*

Using the marketing example from above, the labor expense for that department would be: *51 * $40,000 = $2,040,000*

Calculate Overhead Expenses

Once the organization's operations have been planned, the expenses associated with the operation of the business can be developed. These are usually referred to as overhead expenses. Overhead expenses refer to all non-labor expenses required to operate the business. Expenses can be divided into *fixed* (those that must be paid, usually at the same rate, regardless of the volume of business) and *variable* or *semi variable* (those which change according to the amount of business).

Overhead expenses usually include the following:

- Travel
- Maintenance and repair
- Equipment leases
- Rent
- Advertising & promotion
- Supplies
- Utilities
- Packaging & shipping
- Payroll taxes and benefits
- Uncollectible receivables
- Professional services
- Insurance
- Loan payments
- Depreciation

In order to develop the overhead expenses for the expense table used in this portion of the business plan, you need to multiply the number of employees by the expenses associated with each employee. Therefore, if NE represents the number of employees and EE is the expense per employee, the following equation can be used to calculate the sum of each overhead (OH) expense: $OH = NE * EE$

Develop a Capital Requirements Table

In addition to the expense table, you'll also need to develop a capital requirements table that depicts the amount of money necessary to purchase the equipment you'll use to establish and continue operations. It also illustrates the amount of depreciation your government enterprise fund will incur based on all equipment elements purchased with a lifetime of more than one year.

In order to generate the capital requirements table, you first have to establish the various elements within the business that will require capital investment. For service businesses, capital is usually tied to the various pieces of equipment used to service customers.

Capital for manufacturing companies, on the other hand, is based on the equipment required in order to produce the product. Manufacturing equipment usually falls into three categories: testing equipment, assembly equipment and packaging equipment.

With these capital elements in mind, you need to determine the number of units or customers, in terms of sales, that each equipment item can adequately handle. This is important because capital requirements are a product of income, which is produced through unit sales. In order to meet sales projections, a business usually has to invest money to increase production or supply better service. In the business plan, capital requirements are tied to projected sales as illustrated in the revenue model shown earlier in this chapter.

For instance, if the capital equipment required is capable of handling the needs of 10,000 customers at an average sale of $10 each, that would be $100,000 in sales, at which point additional capital will be required in order to purchase more equipment should the government enterprise fund grow beyond this point. This leads us to another factor within the capital requirements equation, and that is equipment cost.

If you multiply the cost of equipment by the number of customers it can support in terms of sales, it would result in the capital requirements for that particular equipment element. Therefore, you can use an equation in which capital requirements (CR) equals sales (S) divided by number of customers (NC) supported by each equipment element, multiplied by the average sale (AS), which is then multiplied by the capital cost (CC) of the equipment element. Given these parameters, your equation would look like the following: $CR = [(S / NC) * AS] * CC$

The capital requirements table is formed by adding all your equipment elements to generate the total new capital for that year. During the first year, total new capital is also the total capital required. For each successive year thereafter, total capital (TC) required is the sum of total new capital (NC) plus total capital (PC) from the previous year, less depreciation (D), once again, from the previous year. Therefore, your equation to arrive at total capital for each year portrayed in the capital requirements model would be: $TC = NC + PC - D$

Keep in mind that depreciation is an expense that shows the decrease in value of the equipment throughout its effective lifetime. For many businesses, depreciation is based upon schedules that are tied to the lifetime of the equipment. Be careful when choosing the schedule that best fits your business. Depreciation is also the basis for a tax deduction as well as the flow of money for new capital. You may need to seek consultation from an expert in this area.

Create a Cost of Goods Table

The last table that needs to be generated in the operations and management section of your business plan is the cost of goods table. This table is used only for businesses where the product is placed into inventory. For a retail or wholesale business, *cost of goods sold*--or *cost of sales*--refers to the purchase of products for resale, i.e. the inventory. The products that are sold are logged into cost of goods as an expense of the sale, while those that aren't sold remain in inventory.

For a manufacturing firm, cost of goods is the cost incurred by the government enterprise fund to manufacture its product. This usually consists of three elements:

1. Material
2. Labor
3. Overhead

As in retail, the merchandise that is sold is expensed as a *cost of goods*, while merchandise that isn't sold is placed in inventory. Cost of goods has to be accounted for in the operations of a business. It is an important yardstick for measuring the firm's profitability for the cash-flow statement and income statement.

In the income statement, the last stage of the manufacturing process is the item expensed as cost of goods, but it is important to document the inventory still in various stages of the manufacturing process because it represents assets to the government enterprise fund. This is important to determining cash flow and to generating the balance sheet.

That is what the cost of goods table does. It's one of the most complicated tables you'll have to develop for your business plan, but it's an integral part of portraying the flow of inventory through your operations, the placement of assets within the government enterprise fund, and the rate at which your inventory turns.

In order to generate the cost of goods table, you need a little more information in addition to what your labor and material cost is per unit. You also need to know the total number of units sold for the year, the percentage of units which will be fully assembled, the percentage which will be partially assembled, and the percentage which will be in unassembled inventory. Much of these figures will depend on the capacity of your equipment as well as on the inventory control system you develop. Along with these factors, you also need to know at what stage the majority of the labor is performed.

7 Financial Components

Financial Statements to Include

Financial data is always at the back of the business plan, but that doesn't mean it's any less important than up-front material such as the business concept and the management team. Astute investors look carefully at the charts, tables, formulas and spreadsheets in the financial section, because they know that this information is like the pulse, respiration rate and blood pressure in a human--it shows whether the patient is alive and what the odds are for continued survival.

Financial statements, like bad news, come in threes. The news in financial statements isn't always bad, of course, but taken together it provides an accurate picture of a government enterprise fund's current value, plus its ability to pay its bills today and earn a profit going forward.

The three common statements are a cash flow statement, an income statement and a balance sheet. Most government s should provide them and leave it at that. But not all do. But this is a case of the more, the less merry. As a rule, stick with the big three: income, balance sheet and cash flow statements.

These three statements are interlinked, with changes in one necessarily altering the others, but they measure quite different aspects of a government enterprise fund's financial health. It's hard to say that one of these is more important than another. But of the three, the income statement may be the best place to start.

Income Statement

The income statement is a simple and straightforward report on the proposed business's cash-generating ability. It's a score card on the financial performance of your business that reflects when sales are made and when expenses are incurred. It draws information from the various financial models developed earlier such as revenue, expenses, capital (in the form of depreciation), and cost of goods. By combining these elements, the income statement illustrates just how much your government enterprise fund makes or loses during the year by subtracting cost of goods and expenses from revenue to arrive at a net result--which is either a profit or a loss.

For a business plan, the income statement should be generated on a monthly basis during the first year, quarterly for the second, and annually for each year thereafter. It's formed by listing your financial projections in the following manner:

1. *Income*. Includes all the income generated by the business and its sources.
2. *Cost of goods*. Includes all the costs related to the sale of products in inventory.
3. *Gross profit margin*. The difference between revenue and cost of goods. Gross profit margin can be expressed in dollars, as a percentage, or both. As a percentage, the GP margin is always stated as a percentage of revenue.
4. *Operating expenses*. Includes all overhead and labor expenses associated with the operations of the business.
5. *Total expenses*. The sum of all overhead and labor expenses required to operate the business.
6. *Net profit*. The difference between gross profit margin and total expenses, the net income depicts the business's debt and capital capabilities.
7. *Depreciation*. Reflects the decrease in value of capital assets used to generate income. Also used as the basis for a tax deduction and an indicator of the flow of money into new capital.
8. *Net profit before interest*. The difference between net profit and depreciation.
9. *Interest*. Includes all interest derived from debts, both short-term and long-term. Interest is determined by the amount of investment within the government enterprise fund.
10. *Net profit before taxes*. The difference between net profit before interest and interest.
11. *Taxes*. Includes all taxes on the business.
12. *Profit after taxes*. The difference between net profit before taxes and the taxes accrued. Profit after taxes is the bottom line for any government enterprise fund.

Following the income statement is a short note analyzing the statement. The analysis statement should be very short, emphasizing key points within the income statement.

Cash Flow Statement

The cash-flow statement is one of the most critical information tools for your business, showing how much cash will be needed to meet obligations, when it is going to be required, and from where it will come. It shows a schedule of the money coming into the business and expenses that need to be paid. The result is the profit or loss at the end of the month or year. In a cash-flow statement, both profits and losses are carried over to the next column to show the cumulative amount. Keep in mind that if you run a loss on your cash-flow statement, it is a strong indicator that you will need additional cash in order to meet expenses.

Like the income statement, the cash-flow statement takes advantage of previous financial tables developed during the course of the business plan. The cash-flow statement begins with cash on hand and the revenue sources. The next item it lists is expenses, including those accumulated during the manufacture of a product. The capital requirements are then logged as a negative after expenses. The cash-flow statement ends with the net cash flow.

The cash-flow statement should be prepared on a monthly basis during the first year, on a quarterly basis during the second year, and on an annual basis thereafter. Items that you'll need to include in the cash-flow statement and the order in which they should appear are as follows:

1. *Cash sales*. Income derived from sales paid for by cash.
2. *Receivables.* Income derived from the collection of receivables.
3. *Other income*. Income derived from investments, interest on loans that have been extended, and the liquidation of any assets.
4. *Total income*. The sum of total cash, cash sales, receivables, and other income.
5. *Material/merchandise*. The raw material used in the manufacture of a product (for manufacturing operations only), the cash outlay for merchandise inventory (for merchandisers such as wholesalers and retailers), or the supplies used in the performance of a service.
6. *Production labor*. The labor required to manufacture a product (for manufacturing operations only) or to perform a service.
7. *Overhead*. All fixed and variable expenses required for the production of the product and the operations of the business.
8. *Marketing/sales*. All salaries, commissions, and other direct costs associated with the marketing and sales departments.
9. *R&D*. All the labor expenses required to support the research and development operations of the business.
10. *G&A*. All the labor expenses required to support the administrative functions of the business.
11. *Taxes*. All taxes, except payroll, paid to the appropriate government institutions.
12. *Capital*. The capital required to obtain any equipment elements that are needed for the generation of income.
13. *Loan payment*. The total of all payments made to reduce any long-term debts.
14. *Total expenses*. The sum of material, direct labor, overhead expenses, marketing, sales, G&A, taxes, capital and loan payments.
15. *Cash flow*. The difference between total income and total expenses. This amount is carried over to the next period as beginning cash.
16. *Cumulative cash flow*. The difference between current cash flow and cash flow from the previous period.

As with the income statement, you will need to analyze the cash-flow statement in a short summary in the business plan. Once again, the analysis statement doesn't have to be long and should cover only key points derived from the cash-flow statement.

The Balance Sheet

The last financial statement you'll need to develop is the balance sheet. Like the income and cash-flow statements, the balance sheet uses information from all of the financial models developed in earlier sections of the business plan; however, unlike the previous statements, the balance sheet is generated solely on an annual basis for the business plan and is, more or less, a summary of all the preceding financial information broken down into three areas:

1. Assets
2. Liabilities
3. Equity

To obtain financing for a new business, you may need to provide a projection of the balance sheet over the period of time the business plan covers. More importantly, you'll need to include a personal financial statement or balance sheet instead of one that describes the business. A personal balance sheet is generated in the same manner as one for a business.

As mentioned, the balance sheet is divided into three sections. The top portion of the balance sheet lists your government enterprise fund's assets. Assets are classified as current assets and long-term or fixed assets. Current assets are assets that will be converted to cash or will be used by the business in a year or less. Current assets include:

- *Cash*. The cash on hand at the time books are closed at the end of the fiscal year.
- *Accounts receivable*. The income derived from credit accounts. For the balance sheet, it's the total amount of income to be received that is logged into the books at the close of the fiscal year.
- *Inventory*. This is derived from the cost of goods table. It's the inventory of material used to manufacture a product not yet sold.
- *Total current assets*. The sum of cash, accounts receivable, inventory, and supplies.

Other assets that appear in the balance sheet are called long-term or fixed assets. They are called long-term because they are durable and will last more than one year. Examples of this type of asset include:

- *Capital and plant*. The book value of all capital equipment and property (if you own the land and building), less depreciation.
- *Investment.* All investments by the government enterprise fund that cannot be converted to cash in less than one year. For the most part, companies just starting out have not accumulated long-term investments.
- *Miscellaneous assets*. All other long-term assets that are not "capital and plant" or "investments."
- *Total long-term assets*. The sum of capital and plant, investments, and miscellaneous assets.
- *Total assets*. The sum of total current assets and total long-term assets.

After the assets are listed, you need to account for the liabilities of your business. Like assets, liabilities are classified as current or long-term. If the debts are due in one year or less, they are classified as a current liabilities. If they are due in more than one year, they are long-term liabilities. Examples of current liabilities are as follows:

- *Accounts payable*. All expenses derived from purchasing items from regular creditors on an open account, which are due and payable.

- *Accrued liabilities*. All expenses incurred by the business which are required for operation but have not been paid at the time the books are closed. These expenses are usually the government enterprise fund's overhead and salaries.
- *Taxes*. These are taxes that are still due and payable at the time the books are closed.
- *Total current liabilities*. The sum of accounts payable, accrued liabilities, and taxes.

Long-term liabilities include:

- *Bonds payable*. The total of all bonds at the end of the year that is due and payable over a period exceeding one year.
- *Mortgage payable*. Loans taken out for the purchase of real property that are repaid over a long-term period. The mortgage payable is that amount still due at the close of books for the year.
- *Notes payable*. The amount still owed on any long-term debts that will not be repaid during the current fiscal year.
- *Total long-term liabilities.* The sum of bonds payable, mortgage payable, and notes payable.
- *Total liabilities*. The sum of total current and long-term liabilities.

Once the liabilities have been listed, the final portion of the balance sheet-owner's equity-needs to be calculated. The amount attributed to owner's equity is the difference between total assets and total liabilities. The amount of equity the owner has in the business is an important yardstick used by investors when evaluating the government enterprise fund. Many times it determines the amount of capital they feel they can safely invest in the business.

In the business plan, you'll need to create an analysis statement for the balance sheet just as you need to do for the income and cash flow statements. The analysis of the balance sheet should be kept short and cover key points about the government enterprise fund.

BEST PRACTICE

Balancing the Costs and Benefits of Economic Development Projects (2010) (CEDCP) (new)

Background. The use of public funding or other forms of government assistance to provide incentives for individual projects, groups of projects, or an economic development plan, program, or policy compels an analysis of both the expected costs and benefits to the jurisdiction. This evaluation is an important decision-making tool for public officials. Responsible use of public funding requires that projects funded provide a suitable return for the jurisdiction, are consistent with overall community goals and priorities, and require that investments are made in a transparent manner with full understanding of all short- and long-term costs and benefits.

Recommendation. The Government Finance Officers Association (GFOA) recommends that a thorough analysis of the costs and benefits of publicly-funded economic development incentives and programs are performed in order to provide the best information possible for local officials to make informed decisions and policies.

For consistency in the economic development program, a clearly detailed methodology and assumptions should be outlined for each project. Other elements of a project should, at a minimum, include:

1. A clear understanding between financial and non-financial costs and benefits.

Economic development projects will most likely result in both financial costs and benefits and non-financial costs and benefits. Financial costs and benefits are those that will impact the jurisdiction's bottom line. For example, additional property tax revenue, payments made on the project, and maintenance expenditures over time are items that will be reported on the jurisdiction's operating statement. Non-financial costs and benefits are realized and have value, but do not translate directly into increases in revenues or expenditures of the jurisdiction. For example, safety, pollution, and quality of life are considerations that affect the local economy but don't have an impact on the jurisdiction's operating statement. Economic costs and benefits would include both financial and non-financial costs and benefits.

2. Consideration of the timing of costs and benefits.

Economic development projects will generally occur over multiple years and ideally provide benefits over an even longer period. As part of the analysis, it is important to define when expected costs and benefits will occur to calculate the net cost/benefit for each year as well as a total net cost/benefit. When comparing costs and/or benefits from different years, it is important to discount future year impacts to compensate for the time value of money.

3. Scope of the analysis.

The area for which the analysis will be conducted needs to be identified. Depending on the incentives, multiple jurisdictional levels – counties, townships, school districts, park districts, social service agencies, and water/sewer districts – should be considered in the scope of the project. Consideration should be given to these other jurisdictions because the host of the project may receive a positive net impact while other levels of government experience a negative net impact.

4. Identification of all cost and benefits.

Within the scope of the analysis, direct and indirect costs and benefits that will result from the project, program, or policy need to be identified and addressed, again giving consideration to other jurisdictions that may be impacted.

- Direct Costs: Costs, from the upfront capital expenditures to the long-term ongoing operating expenditures that will result, should be identified. Existing infrastructure (utilities, roads, public transportation, and recreational services) and services (police, fire, schools, social services) that may be impacted from additional need should be projected as well.
- Direct Benefits: Revenues can range from increases in real estate, gross receipts, sales, lodging, utility, or other tax streams to increases in permitting or water and sewer fees.
- Indirect Impacts: Identifying and enumerating indirect costs and revenues is a difficult task most frequently accomplished with more sophisticated econometric models or more simplistic multiplier calculations.

5. Assessment of the chance that each cost and benefit will occur.

Projecting future costs and benefits of an economic development project involves some level of uncertainty. Not all project benefits are guaranteed and this must be accounted for in the cost/benefit analysis. For each cost and benefit and for each year the finance officer should explicitly state the probability of the impact occurring and include these costs in the overall calculation.

6. Communication of Results.

Communicating the assumptions that were involved in developing the net impact is just as important as the impact.

References.

- Mike Mucha, *Fiscal Impact Analysis: How to Use It and What to Look Out for*, Government Finance Review, October 2007.
- GFOA Best Practice, *Developing an Economic Development Incentive Policy*, 2008.
- GFOA Best Practice, *Analyzing the Cost of Economic Development Projects*, 2009.
- Paul Harris and Ronald Berkebile, *A Financial Analyst's Toolkit: Analyzing the Fiscal Impacts of Economic Development Projects,* Government Finance Review, June 2008.
- ICMA Report, Preparing a Local Fiscal Benefit-Cost Analysis, Volume 37, Number 3, 2005.

Approved by the GFOA's Executive Board, March 5, 2010.

BEST PRACTICE

Analyzing the Benefits of Economic Development Projects (2010)(CEDCP) (new)

Background. State, provincial and local jurisdictions utilizing incentives defined by an economic development policy do so to promote and grow the local economy through job creation, wage and compensation growth, and tax base expansion. To reach the goals identified in the policy, local jurisdictions need to measure the benefits of projects receiving economic development incentives against the cost of the public expenditure, or willingness to forgo future revenue. While there is no single best method for conducting analysis and it is impossible to predict all impacts a project will have on a community, providing a thorough and rigorous analysis of each project is critical for the purposes of government accountability and long-term revenue impacts.

Recommendation. The Government Finance Officers Association (GFOA) urges state, provincial and local government officials to examine the benefits and costs associated with economic development projects, programs, and policies. Jurisdictions should analyze each project and its ability to achieve stated goals as identified in the economic development policy and generate sufficient benefits to justify the cost and risk.

***Benefit Elements*:**

Growth and Diversification of Revenue Base. Jurisdictions have a vested interest in realizing expected direct benefits of economic development through revenues from development activity. An analysis should include estimates of income, sales, property, and transactional taxes based, in part, on the jurisdiction identifying where new employees will live and spend money. For example, estimates of income tax revenue assumptions should include the percent of employment that will be filled by residents of the jurisdiction vs. commuters and the total portion of personal income that will become part of the jurisdiction's economy. Additionally, sales taxes can be estimated on the projected portion of disposable income that will be spent by a new employee in the jurisdiction.

As a result of increased economic activity within a state, provincial or local jurisdiction, there will be a number of indirect economic effects through employment and income multipliers. Multiplier impacts can be direct, indirect, or induced. Increase in final demand (sales) in a jurisdiction requires inputs into the production process plus the need for further inputs (jobs) and other inputs of production (direct and indirect).

Assumptions about impacts to business (commercial, industrial, etc.) and residential property tax should take into consideration additional demand for new or remodeled business properties as a result of economic activity and the ability for existing house stock to accommodate new resident workers. Other transactional taxes or fees the jurisdiction will receive from development may be estimated on a per-household or new employee basis. An analysis should include assumptions about other development-related fees, whether one-time, ongoing business taxes or payment in lieu of taxes (PILOT) where they apply.

It is important that the revenue analysis measure the impacts from business displacement and the "new" revenue generated within a jurisdiction rather than the result of business activity that is moved from one existing business to another.

Multi-jurisdictional Benefits. The full benefit of the economic development project may not be captured solely by the local jurisdiction. An analysis of project benefits should take into account other jurisdictions and the project impact.

Assessing Intangible Benefits. Other project benefits may be incurred by the local jurisdiction that, while not exactly quantifiable, can be estimated for the purpose of providing the jurisdiction's decision makers with the most thorough information. Examples of these intangible benefits include donated facilities or infrastructure, quality of life amenities, community prestige or pride, and corporate citizenship.

***Benefit Analysis*:**

Net Present Value Consideration. Determining the benefit of a project requires assumptions about the timing of benefit streams that will take place in the future and are based on conditions like employment, occupancy, etc. These benefits will most likely be received in a period other than the one in which the costs are incurred, requiring the calculation of the net present value of the project. For example, a public investment may be required at the onset of a project with annual commitments to operational costs. To make appropriate comparisons between the costs and benefit streams, a net present value analysis should be performed. The analysis should contain a clear description of the adjusted impact for the jurisdiction, the constructed methodology, and the assumptions employed. It is important to acknowledge the strengths, weaknesses, and limitations of results so that decision makers are fully informed.

References.

- Mike Mucha, *Fiscal Impact Analysis: How to Use It and What to Look Out for*, Government Finance Review, October 2007.
- GFOA Best Practice, *Developing an Economic Development Incentive Policy*, 2008.
- Paul Harris and Ronald Berkebile, *A Financial Analyst's Toolkit: Analyzing the Fiscal Impacts of Economic Development Projects,* Government Finance Review, June 2008.
- ICMA Report, Preparing a Local Fiscal Benefit-Cost Analysis, Volume 37, Number 3, 2005.

Approved by the GFOA's Executive Board, March 5, 2010.

BEST PRACTICE

Analyzing the Cost of Economic Development Projects (2009)(CEDCP)

Background. Jurisdictions utilizing economic development incentives have very different objectives from the businesses receiving them. Public bodies are responsible for providing services to citizens while businesses are focused on maximizing profits. Because of these competing interests, the best returns on public investment through economic development incentives are those that have been examined carefully against the cost of the public expenditure. To ensure government accountability and thoughtful long-term policymaking, an examination of the benefit to the local jurisdiction must be compared to the offered incentives, the need for those incentives, and the public cost or willingness to forgo future revenue.

Recommendation. The Government Finance Officers Association (GFOA) urges state and local government officials to examine the fiscal costs associated with economic development projects, programs, and policies. At a minimum, jurisdictions must examine cost elements and costing methodologies as part of their analyses.

Cost Elements:

Opportunity Costs. Evaluate other potential uses for the funds, land, and other incentives. This can also include one-time upfront developer subsidies. The evaluation should include uses discussed to date or that may develop in the future, recognizing that future uses inherently involve uncertainty. Is the considered project the highest and best use of the incentive(s)? Or, does a future project generate sufficient benefits to justify the risk that a more desirable project won't appear for some time?

Operational Costs. Within the scope of the project, direct and indirect costs should be identified, and whether these costs will be an expansion of ongoing operations that will require additional resources should be determined. Examples of additional costs include police, fire, social services, roads, public transport, utilities, and recreational facilities.

Multi-jurisdictional Impacts. Whether direct or indirect, cost impacts to multiple government levels – counties, townships, school districts, park districts, social service agencies, libraries, water/sewer districts – should be considered when possible within the scope of the project.

Market Impact. Whether direct or indirect, market impacts to the jurisdiction should be considered. Examples include market absorption or saturation, capacity for growth, and potential displacement or substitution of existing local businesses and service providers.

Assessing Intangible Costs. Project impact considerations may also take into account a variety of intangible factors. Such factors may include quality-of-life or amenities, and, while they may not be readily quantified, these factors can be very influential from the perspective of the taxpayers, neighbors, etc., who may be impacted by the project. Following the identification of applicable factors (e.g., noise, light pollution, traffic, and congestion), it is essential that jurisdictions understand and address the respective issues, while identifying mitigating factors if possible.

Cost Analysis Methodologies (See references below):

Net Present Value Consideration. The timing of the costs must be accounted for in the analysis, as additional revenue generated from a project will most likely be realized in the future. For example, a public investment may be required at the onset of a project with annual commitments to operational costs. To make appropriate comparisons between the costs and benefits, a net present value analysis should be performed.

Average/Marginal Methods. Two generally accepted methods for cost analysis are the average (or per capita) method and the marginal cost approach. Average or per capita approaches can be used when the scoped project is not anticipated to incur costs outside the typical average historical costs experienced by the jurisdiction. If costs vary significantly from historical averages, then employing the marginal cost method through a case study may be more appropriate. A case study analyzes the existing supply and demand for public services and projects the impact of the project on these services. Developing a case study requires interviews and data collection to understand current service levels and the impact a new project will have with respect to issues like infrastructure capacity.

Finally, when presenting the results, the analysis should contain a clear description of the net impact for the jurisdiction, the constructed methodology, and the assumptions employed. It is important to acknowledge the strengths, weaknesses, and limitations of results so that decision makers are fully informed.

References

- *Preparing A Local Fiscal Benefit-Cost Analysis*, International City/County Management Association (ICMA) Report, Volume 37, Number 3, 2005.
- "Fiscal Impact Analysis: How to Use It and What to Look Out For," *Government Finance Review*, GFOA, October 2007.
- "A Financial Analyst's Toolkit: Analyzing the Fiscal Impacts of Economic Development Projects," *Government Finance Review*, GFOA, June 2008.
- GFOA Best Practice, "Developing an Economic Development Incentive Policy," 2008.
- GFOA Best Practice, "Monitoring Economic Development Performance," 2009.

Approved by the GFOA's Executive Board, February 27, 2009.

Port of Toledo
Ship/Boatyard Repair Facility
Feasibility Study: Part 3

Ship/Boatyard Business Plan

June 2009

BST Associates

MAUL FOSTER ALONGI

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Purpose

Acting upon findings in the Preliminary Business Plan[1] completed in July 2008, the Port of Toledo has taken initial steps to acquire the Fred Wahl Boatyard. So that the Commission and management are fully informed of the opportunities and risks associated with purchase and operations, this document presents a financial analysis and economic impact on the region.

The Port's motivation for considering the shipyard strategy is best described in this justification for the funding request to Oregon Economic and Community Development Department:

> *Retaining the current commercial & recreational fleet through the support services provided by the Boatyard will retain and create jobs, which will in the long-term promote the long-term economic growth of the area. A publically owned Boatyard will offer the platform for private sector marine services; and through leases as well as income generated through services rendered will provide an income stream that will attain the Port's self sufficiency.*

A proposed General Obligation Bond, intended for acquisition, was defeated by the Port District voters in November of 2008. Then, in December 2008, the yard closed which adversely affected the region's commercial fleet as it is the only haul out facility for vessels over 70 ton in the Yaquina Bay Estuary. In 2009 the Port of Toledo signed a Purchase Agreement with the property owner for $1.5 million, with the property owner donating the difference from the current Appraisal to the Port. The purchase is contingent on funding, and environmental studies.

[1] Ship/Boatyard Repair Facility Feasibility Study: Phase 1 Findings Report; Preliminary Business Plan, July 2008

As-Is

The analysis which follows is based on an "As-Is" acquisition with facilities and operations unchanged. This scenario is considered to the best option for the Port considering overall adverse regional economic impacts if the boatyard is closed. Future services and business lines; construction of new facilities; and, regulatory[2] changes are not proposed or considered.

Public ownership of the boatyard by the Port offers an opportunity to match future grants. By leveraging this Port asset, facility improvements may be in the future that will further enhance economic performance and the Port's position as a key marine industrial asset on the Pacific Northwest Coast.

A future marine rail haul-out is currently being considered by the Port (refer to Figure 2). This land use is allowed by the Lincoln County Zoning Code, and the Port has a current Joint Aquatic Resource Permits Application (JARPA) from the U.S. Army Corps of Engineers. A preliminary engineering study, JARPA documents and costs associated with this improvement can be reviewed in the Phase 1 Findings Report[3].

The marine rail haul-out facility would attract vessels that otherwise would pass-by Yaquina Bay. For example, the distant water fleet - boats traveling to the Alaskan coast, Bristol Bay, and along the coasts of California and Washington – is characterized by vessels too large for current facilities. This fleet represents a potential income stream for the Port if the facility is operational.

A proposed upland boat work yard is in the planning stages. This facility is a low-cost, high-return improvement with immediate value to the commercial, charter and recreational boat owner. Development of the yard will require relocating overhead utility lines underground; sanitary sewer line extension; paving, water quality devices, vegetative buffers and swales, and power hook-ups.

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[2] Refer to Section 4: Findings for Due Diligence, pages 8-14, for a review of local, state and federal regulations.

[3] Appendix 5

Financial Analysis

This section presents a pro forma financial assessment of the proposed boat yard in Toledo, Oregon.

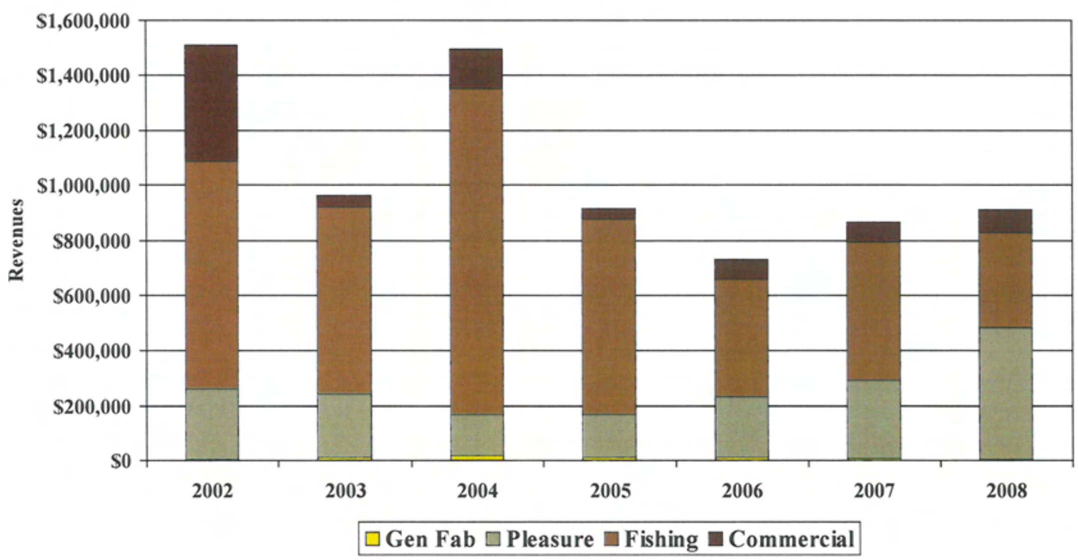
Review of Fred Wahl Boatyard Operations

Financial Assessment

The revenues during Fred Wahl's operation of the Boatyard in Toledo are presented in Figure 1. During the past eight years, revenues ranged from a low of $730,000 in 2006 to a high of $1.5 million in 2004.

During the past three years (2006 to 2008), gross revenues averaged $835,000. During this period, revenues from fishing boats and recreational boats (power and sail) represented 51% and 39% of gross revenues, respectively. General fabrication and commercial boats accounted for the remaining gross revenues.

Figure 1 – Gross Revenues from Fred Wahl Boatyard Operations



Fred Wahl Marine Construction, Inc. (Toledo yard) had a large and faithful market base, consisting primarily of boats homeported along the mid-Oregon coast as well as some boats from Northern California on the south to Alaska on the north. In earlier years (2001 to 2004), Fred Wahl Boatyard had several major rebuilds, which was the main reason for increased revenues relative to later years.

Financial records were available to the consultant for 2007 and 2008. The Boatyard was profitable in 2008 but not in 2007. However, Fred Wahl (Toledo) had a substantial loan associated with acquisition of property and equipment and also paid property taxes. If these charges are removed from the expenses, the yard was profitable in 2007 and 2008. It should also be recognized that the yard operated without a general manager from 2005 through 2008, did little marketing and was scheduled for closure in 2008.

The following sections project the financial performance of the Boatyard under ownership by the Port of Toledo.

Review of Operations

Fred Wahl Boatyard handled an average of 181 boats between 2006 and 2008, ranging from a low of 160 boats (2008) to a high of 203 boats (2007). It should be noted that 2008 was a partial year, with operations ceasing in November.

During this period, the Boatyard handled:

- Drydock operations accommodated 19 to 30 boats. The average length of these boats was 72 feet and the average invoice was $15,000 per boat. These boats mainly included commercial fishing boats and government boats (NOAA et al).
- Travelift operations accommodated 85 to 101 boats with an average length of 42 feet and an average invoice of $3,000 per boat. These boats mainly included recreational boats (power and sail) and charter boats.
- Other operations (dockside repairs, in which no lift was required) accommodated 58 to 81 boats with an average length of 49 feet and an average invoice of $3,400 per boat. These operations included all types of boats.

Table 1 – Number of Boats at Fred Wahl Boatyard

	Number of Boats per year			
Type	2006	2007	2008	Average
Dry Dock	23	30	19	24
Travelift	85	101	88	91
Other (Dockside)	81	74	58	71
Total	181	203	160	181

Source: Port of Toledo, Fred Wahl Boatyard

In order to present a conservative estimate, the pro forma presented in this report is based upon the period from 2006 to 2008. The projections assume operations in an as-is condition and do not reflect potential increased revenues associated with facility improvements. Additional marketing efforts could also increase the number of boats handled. However, it should be recognized that there is substantial competition from other boatyards and shipyards on the West Coast.

Financial Pro Forma for Port of Toledo Boatyard

This section provides a pro forma financial assessment for the proposed boatyard.

Revenues

Revenues are based upon the number of boats handled and expected charges, which are based upon actual operations at Fred Wahl Boatyard and/or competitive market rates.

- Haulouts
    - Travelift
        - The Port of Ilwaco charges $5.00 per foot, Port of Astoria charges $6.50 per foot. Reedsport Machine & Fabrication charges $7.50 to $8.50 per foot depending on the length.
        - The expected average rate is $6.50 per foot (under the low scenario) to $8.00 per foot (under the high scenario).
    - Dry Dock
        - Fred Wahl charged $17.50 per foot for use of the dry dock in 2008.
        - The expected rate is $15.00 (low) to $17.50 per foot (high).
        - In addition, there are charges for dry dock preparation at $65.00 per hour for an average 4.4 hour operation.
- Pressure wash
    - The Port of Ilwaco charges $1.25 per foot; Fred Wahl charges $60 per hour but is expected to raise rates for this service. Reedsport Machine & Fabrication charges $65 per hour for pressure washing by its staff.
    - The expected rate is $65 per hour under both low and high scenarios. The average hours of pressure wash operations are 2.2 for smaller boats (using the Travelift) and 7.9 for larger boats (using the dry dock).
- Moorage & Lay Days
    - Dry dock lay days range from 6.3 (low) to 9.5 (high) per boat at a rate of $72 (low) to $75 (high) per day.
    - Travelift lay days range from 6.2 (low) to 12.4 (high) per boat at a rate of $42 (low) to $45 (high) per day.
    - Use of the service dock or the transient moorage float ranges from 3.3 (low) to 6.6 (high) per boat. Use of the service dock is projected at a rate of $49 (low) to $72 (high) per day. The daily

charge at the Newport Terminal is approximately $72 (including electricity). Transient moorage is projected at approximately $25 per day (i.e., at the transient rate at the Port of Toledo marina).

- Equipment rentals
    - Equipment rentals are to be charged at $100 (low) to $125 (high) per hour for cranes and forklifts. Astoria charges $100 per hour for the crane. Newport charges $40 per hour for a small forklift, $55 for the large forklift and $66 to $125 per hour for the crane at Port facilities, depending on the facility.
- Charges to vendors
    - Reedsport Machine & Fabrication charges $10 per hour for subcontractors using the yard.
    - The expected rate is $6 per hour (low) $10 per hour (high) for subcontractors. The number of hours is based upon actual operations at Fred Wahl Boatyard.
- Margin on materials – The Boatyard has traditionally bought materials (paint, zincs, and other supplies) at wholesale prices and charged a 25% to 40% markup for materials. This practice is expected to continue.

The gross revenues for the Port of Toledo operations are expected to range from $508,000 (low) to $602,000 (high) in year one of operations. Including expected revenues from vendors, the gross revenues at the Boatyard (public and private operations) would range from $1.1 million (low) to $1.2 million (high). This is comparable with competing boat yards, which generated between $750,000 and $1.1 million in the most recently reported year of operations or an average of approximately $950,000. It is also comparable to revenues at Fred Wahl Boatyard in previous years.

Table 2 – Reported Gross Revenues at Competing Boat Yards

Name of Firm	# Employees	Estimated Revenues
Fashion Blacksmith, Inc	10	980,000
Reedsport Machine & Fabrication	10	973,836
Giddings Boat Works, Inc	10	750,000
Astoria Marine Construction Co	15	1,100,000
Average	11	950,959

Source: Dun & Bradstreet

Individual charges are projected to increase annually at 1.5% to 2.5% per year under low and high scenarios, respectively. In addition, the number of boats served is expected to increase at 1% to 3% per year under low and high scenarios, respectively

Expenses

The expenses associated with the Port's operation of the yard include:

- Payroll:
  - Under both the low and high scenarios, there are 4 employees (2 laborers at $15/hour, 1 clerical staff at $15/hour, and 1/2 supervisor at $22/hour.
  - Taxes and benefits include payroll taxes, health insurance, workers compensation and employee deferred comp plan. During the first year, employees will be on probation for the first six months. After the probation period, benefits will amount to 46%+ of wages.
  - Payroll expenses, which were calculated in the same manner as for existing employees at the Port of Toledo, are projected to be $151,000 in the first year increasing to $174,000 in the second year and increasing by 2.5% per year thereafter.
- Office/general expenses include telephone, utilities, fees & licenses, bank charges, general office expenses, freight & postage, and insurance.
  - These charges, which are based upon the actual expenses accrued to Fred Wahl Boatyard in 2008, are expected to range from $71,000 (low) to $76,000 (high) in the first year and grow at 2.5% per year under both scenarios.
  - Other expenses such as travel & meals, subscriptions & dues, donations and other potential expenses are not charged to the Boatyard. If they occur, they will be charged to general Port operations.
- Other expenses include: environmental expenses, inventory (cost of goods sold), DSL Lease, permits & licenses, repairs & maintenance.
  - These charges, which are also based upon the actual practices at Fred Wal Boatyard in 2008, are expected to be $235,000 under both scenarios. Annual growth of 2.5% is projected for future years.

The expenses to operate the yard are expected to be $458,000 (low) to $463,000 (high) in the first year. Due to additional employee benefits expenses are expected to increase to $489,000 (low) to $500,000 (high) and grow at 2.5% for years three through five.

Net Operating Income

The expected net operating income before depreciation in year one is expected to range from $50,400 (low scenario) to $139,400 (high scenario).

The terms of the loan ($1.55 million) are at a rate of 5.0% for 25 years, and would require an annual loan payment of $110,000. These funds would be used for property acquisition ($1.5 million) and improvements ($50,000).

After the loan payment, the income (before depreciation) would be -$59,600 under the low scenario and $29,400 under the high scenario in year one.

There is risk associated with this venture. If demand declines, revenues decline and/or expenses increase, the financial results could deteriorate. Tables 3 and 4 present the low and high pro forma scenarios.

Figure 2 – Net Operating Income from Port of Toledo Boatyard Operations

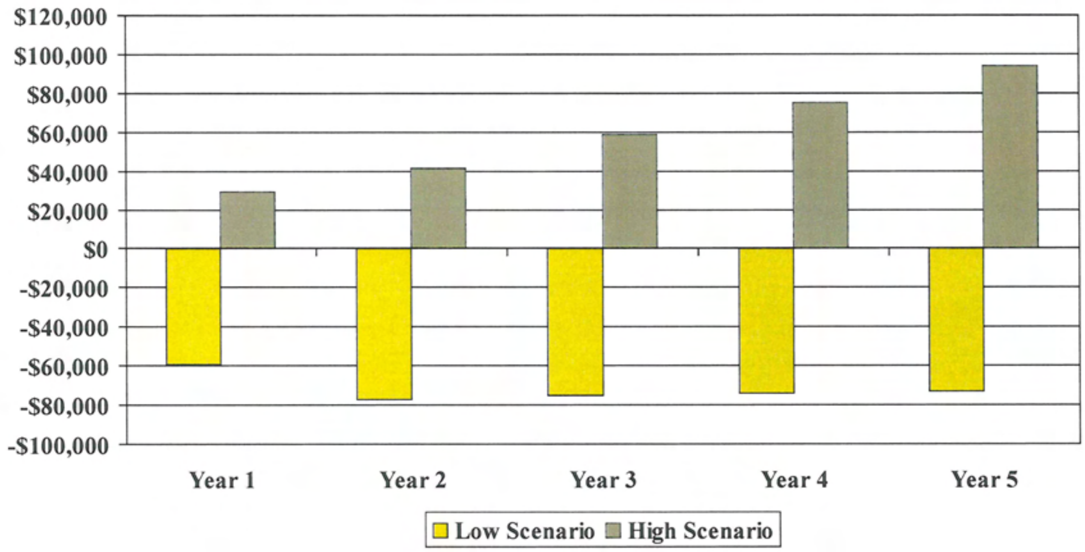


Table 3 – Port of Toledo Pro Forma – Low Scenario

Item	Year 1	2	3	4	5
Revenues					
Dry Dock	245,000	252,000	260,000	268,000	276,000
Travelift	174,000	179,000	183,000	188,000	193,000
Dockside	81,000	82,000	85,000	87,000	89,000
Other (rent)	8,400	8,500	8,700	8,800	8,900
Subtotal	508,400	521,500	536,700	551,800	566,900
Expenses					
Labor	151,000	174,000	179,000	183,000	188,000
Office expenses	71,000	73,000	74,000	76,000	78,000
Other expenses	236,000	242,000	249,000	257,000	264,000
Subtotal	458,000	489,000	502,000	516,000	530,000
Financial Performance					

Income from Operations	50,400	32,500	34,700	35,800	36,900
Loan Payment	110,000	110,000	110,000	110,000	110,000
Income after Loan Payment	(59,600)	(77,500)	(75,300)	(74,200)	(73,100)

Source: BST Associates with data from Fred Wahl Boatyard, Port of Toledo

Table 4 – Port of Toledo Pro Forma – High Scenario

	Year				
Item	1	2	3	4	5
Revenues					
Dry Dock	280,000	296,000	313,000	330,000	348,000
Travelift	208,000	220,000	232,000	245,000	259,000
Dockside	106,000	127,000	134,000	140,000	148,000
Other (rent)	8,400	8,600	8,800	9,000	9,300
Subtotal	602,400	651,600	687,800	724,000	764,300
Expenses					
Labor	151,000	174,000	179,000	183,000	188,000
Office expenses	76,000	78,000	80,000	82,000	84,000
Other expenses	236,000	248,000	260,000	274,000	288,000
Subtotal	463,000	500,000	519,000	539,000	560,000
Financial Performance					
Income from Operations	139,400	151,600	168,800	185,000	204,300
Loan Payment	110,000	110,000	110,000	110,000	110,000
Income after Loan Payment	29,400	41,600	58,800	75,000	94,300

Source: BST Associates with data from Fred Wahl Boatyard, Port of Toledo

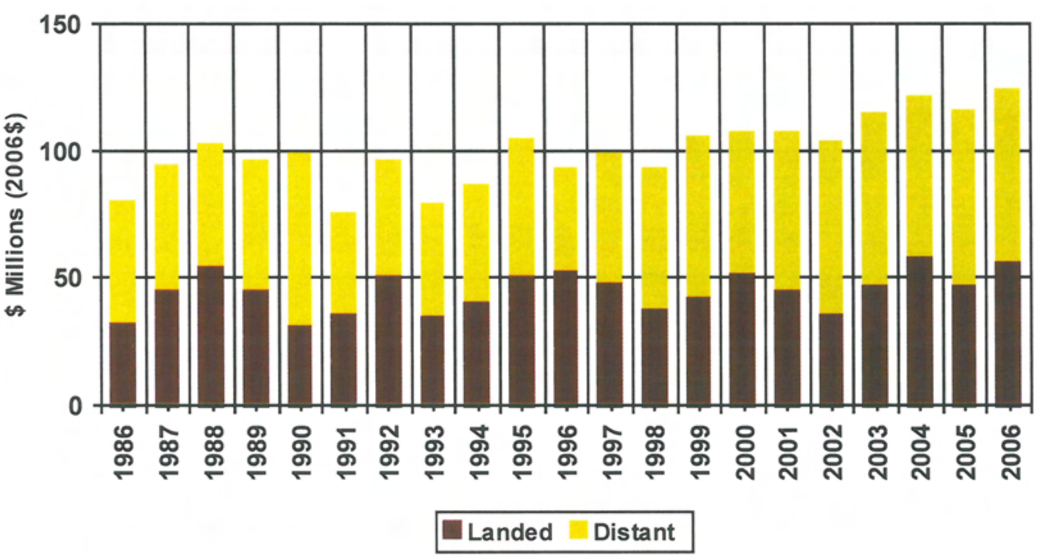
Economic Impacts

Importance of the Commercial Fishing Fleet

The economic contribution of the commercial fishing industry in the Newport Area (comprised of the communities of Newport, Oregon, Depoe Bay, Oregon and Toledo) is significant. Based on economic analysis done for the period 2005-2007 presented in Figure 3, this industry accounts for 15 percent to 16 percent of earned income and generates approximately 4,000 jobs in the Area.

In addition, slightly more than half of this activity is generated by the distant water fleet and the remainder by the local/regional fleet. A frequently cited economic concern for this industry is that the loss of key infrastructure, including but not limited to boat repair services, could result in a further decline in the Area's local fishing industry.

Figure 3 - Economic Contribution of Commercial Fisheries in Newport Area



* Source: Oregon's Commercial Fishing Industry Year 2005 and 2006 Review and Year 2007 Outlook prepared by The Research Group for Oregon Department of Fish and Wildlife and Oregon Coastal Zone Management Association Inc., June 2007, page V-5

Economic Impact of Port of Toledo Boatyard

The proposed Port of Toledo Boatyard will have the following expected economic impacts:

- Direct sales of $1.4 million including sales through the boatyard and through related private boatyard operations. The total impact is $2.5 million, including direct, indirect and induced effects.
- Direct payroll associated with the boatyard and related private operations are projected to be $350,000. Total income generated is projected at $585,000 (direct, indirect and induced effects).
- There are expected to be 12 equivalent full time employees associated with the operation. The total jobs impacted are 29 in the State of Oregon.
- In addition, there will be approximately $112,000 in state and local taxes.

Table 5 – Economic Impacts of port of Toledo Boatyard

Factor	Direct	Total
Sales	$1,400,000	$2,537,000
Payroll/income	$350,000	$585,000
Jobs	12	29

Source: BST Associates, Implan Model for multipliers

Potential Funding Strategies

This analysis is based on an As-Is acquisition by the Port. Alternative strategies were discussed in the Preliminary Business Plan[4]. These included a Port operated Do-It-Yourself ("DIY") Facility; Port Purchase and Private Party Lease; and, a Public/Private Partnership. Regardless of the business structure, potential acquisition, ownership and operation may require future capital improvements[5].

Refer to Appendix 1 for a list of funding sources available from FHWA, Department of Transportation. These include EDA Grants for industrial and port development, and already familiar to the Port of Toledo.

[4] Page 34-36
[5] "potential Compliant or Preferred Capital Improvements, Preliminary Business Plan, page 36

Boatyard and Industrial Center[6]

The boatyard property contains roughly 20-acres; however the site is constrained by steep slopes and wetlands. With little flat usable land available and a long, narrow configuration, efforts must be taken to improve efficiencies and capitalize on opportunities where feasible. An important feature is the existing railroad right-of-way which could potentially provide rail access to interior sites. Portland & Western Railroad currently provides rail service between Toledo and the Willamette Valley. Feasibility for future service has been studied by the Port.

Figure 2 illustrates the existing work yard or "Core Area". This area will have few short term changes; however, a rail lift may be added in the future when funds are available. Priority projects are sandblast improvement, efficiencies to enclosed work space, and a general yard rearrangement to gain better use of the limited space available.

Figure 3 illustrates the new "Boat Storage and Work Yard". These improvements greatly enhance the Port's marine industrial business lines in close proximity to the existing Industrial Complex[7]. These two separate properties offer business cluster opportunities and synergy which will expand the Port's potential market.

Figure 3 also illustrates the realignment of Altree Lane, new boat parking in seventeen stalls (with flexibility for double "bow-to-stern "or single), security fencing and industrial building sites. Angled parking and a wider driveway will aid in efficient maneuvering of vessels, reducing haul-out time and minimizing traffic congestion. Existing overhead utilities will be placed underground.

A new sanitary sewer line would be extended from the bridge in Bay Boulevard. Engineering plans have been completed for the sewer line, construction of which would also benefit the Georgia Pacific plant and the Port's Industrial Complex. Construction will require funding from existing Port sources, grants, and possible from operating income.

For all future improvements the Port will employ environmentally friendly practices. Figure 2 illustrates broad wetland[8] setbacks, a vegetated riparian buffer along Tokyo Slough, and stormwater facilities to treat surface runoff. In the Core Facilities shown on Figure 1, the Port will improve sandblasting procedures by eliminating airborne and surface runoff particulates. Overall site runoff will be treated in water quality facilities and oil-water separator catch basins here and in the Boat Storage and Work Yard.

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[6] Please refer to Figures 1, 2 and 3

[7] Small Business Units are available in the Industrial Complex Building. Located on N. Bay Road in Toledo, these units are suitable for beginning business space with electricity, and water. The units can also be upgraded to suit the business purpose

[8] Delineation of the subject wetland will be performed prior to final engineering of site improvements. The wetland illustrated in Figure 2 is approximate.

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Summer Work and Travel (SWT) Program

Program:

J-1 Visa, Summer Work and Travel (SWT).

Structure:

The SWT program began in 1963 as a cultural exchange. The SWT program provides foreign post-secondary students the opportunity to work and travel in the United States during their summer vacations up to 4 months with the purpose of showcase America and foster cultural exchange.

Designated sponsoring organizations (for-profit and/or non-profit) facilitate the entry of foreign nationals into the United States for the purpose of completing the objectives of the program.

<u>2011 Final Interim Rules</u>

The department of State announced Final Interim Rules regarding to the Summer Work Travel (SWT) Program which became effective in July 15, 2011. According to the 2011 final interim rules, four major changes went into effect in order to strengthen sponsors' oversight of both their program participants and third parties who are allowed to assist them in the administration of the core functions of their programs.

1) Only aliens from countries that participate in the Visa Waiver Program can enter the country without pre-placed jobs.
2) Second, sponsors are required to fully vet the third parties whom engage to assist in performing core functions inherent with the program administration of the Exchange Program.
3) Sponsors are required to fully vet all job offers, regardless of whether they, the participants, or foreign entities arrange and placements and regardless of whether the offers are arranged prior to their departure or to following their arrival in the United States.
4) Sponsors will be required to contact active program participants on a monthly basis to monitor their welfare and their whereabouts. Previous regulations required no more than half of a sponsor's program participants may enter the U.S without pre –arranged job placements. The interim final rule now links the pre-placement requirement directly to the underlying risk factor (i.e., country of

origin). Thus, the interim final rules allow visa officers to discern directly from applicants' paperwork whether they are required to be pre- placed.

Public Release by the Department of State in November 2011

The department of State announced a new rule that limits the number of future participants to 2011 participation level which was estimated as 103,000. The department also put a moratorium to the designation of new sponsors until further notice. This rule went into effect in January 2012.

Public Release in January 18, 2012

The Department of State revoked the certification of the sponsoring company known as CETUSA due to the complaints about poor labor conditions at Hersey factory in Pennsylvania. The non-profit Council for Education Travel USA, known as CETUSA, can no longer bring in students under the J-1 Summer Work Travel program.

In January 18, 2012, an internal memo obtained by the AP addressing the upcoming significant changes on SWT program was released. Some of the most significant changes would be to ban jobs in factories, warehouses and other places like seafood processing plants in the memo written by Adam Ereli, assistant secretary for the State Department's Bureau of Educational and Cultural Affairs. The agency also plans on re-emphasizing the prohibited jobs in the adult entertainment industry.

The memo includes a provision aimed at protecting American workers, "such as a more precise definition of temporary seasonal employment and a bar against SWT job placements during layoffs or lockouts."

Another change stated in the memo is to cap the number of hours a student could work at 40 hours which is the most controversial because all SWT employers expect their participants to work more than 40 hours a week.

The State Department estimates that the rule change will cut 5,000 to 8,000 jobs, of which two-thirds were "highly localized in Alaska and the Pacific Northwest."

In the memo, Ereli stated that the seafood packing industry and the sponsor that supply workers to the industry have been making concrete effort to oppose of the factory jobs prohibition.

In February 7, 2012, Senator Mark Begich sent a letter to Secretary Hillary Clinton addressing the impacts of any proposed changes in the SWT program to participating seafood industry employers in Alaska (Please, see the attached letter).

According to the memo, the public announcement of the rules is expected to be released in March, 2012.

From: Brad Gilman [mackerel@hsgblaw-dc.com]
Sent: Friday, February 24, 2012 6:06 AM
To: Kniaziowski, Aimee
Cc: 'Pat Branson'
Subject: RE: J1 Visa Program Changes
Attachments: J-1 Visa issue--Begich ltrs (Feb. 2012).pdf; J-1 Visa issue--State Dept memo (Jan. 18, 2012).pdf

Aimee: We have been actively working this issue on behalf of the processing community for Alaska, the West Coast, and the East Coast. It is a serious issue.

Attached is the State Department memo that was leaked late last month. The J-1 Visa is a work visa for students, but it is based on a cultural exchange component. Our processing community has come to rely upon it to fill gaps in their workforce. I think reasonable people can disagree about whether the J-1 Visa should be used as extensively as it has been. The problem is with the timing of any changes to the program.

Many of the processors are very far along in their annual recruitment process through the J-1. The State Department is trying to push an "interim final rule" through the system in March. This is basically a final rule with no ability for the public to comment. The big processors will likely be able to fill the gaps in their seafood processing billets because they generally have a large human resources staff and can recruit widely. The small business processors, however, will have a hard time finding people willing to work in the plants on such short notice.

The better approach is for the State Department to back off the interim final rule, and simply go through a formal rulemaking process. This generally takes six to nine months. The processing industry might be able to offer up a program which adds the type of cultural exchanges consistent with the purposes and policies of the program. Even if the State Department ultimately bans J-1 visa holders from working in the seafood industry, this would give the companies another year to make the necessary adjustments to their recruiting practices.

The State Department has not yet sent the interim final rule to the Office of Management and Budget. The seafood industry will likely meet with OMB once the rule is sent over, to appeal to the agency to have the issue go through the traditional rulemaking process.

Let me know what else you need—

Brad

From: Kniaziowski, Aimee [mailto:akniaziowski@city.kodiak.ak.us]
Sent: Thursday, February 23, 2012 8:39 PM
To: Brad Gilman
Cc: 'Pat Branson'
Subject: J1 Visa Program Changes

Brad,

Can you provide me with an update on the status of the J1 Visa program changes? Council would like to have a discussion about this program and the changes as they might affect Kodiak at their March 6 work session. I appreciate any information you might have.

Thanks,
Aimée Kniaziowski

City Manager
City of Kodiak
710 Mill Bay Road
Kodiak, AK 99615
Phone (907) 486-8640 Fax (907) 486-8600

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United States Department of State

2012 JAN 18 PM 5:39 Washington, D.C. 20520

January 18, 2012

ACTION MEMO FOR ASSISTANT SECRETARY STOCK (R)

FROM: ECA – Adam Ereli SSFor

SUBJECT: Summer Work Travel Program Reform – Rulemaking Strategy

Recommendation

That you approve a two-part 2012 rulemaking strategy for new Summer Work Travel Program regulations as outlined below and in Tabs 1 and 2. The new regulations will represent significant changes designed to realign the Program with its original purpose.

Approve A.S. Disapprove ______________

Discussion

As intended, the November 7, 2011, announcement of a cap on the number of Summer Work Travel (SWT) Program participants at 2011 levels (approximately 109,000), sent a strong message about the Department's seriousness regarding SWT Program reform and created space to enable more extensive reforms in 2012. Since that announcement, ECA has engaged in extensive consultations with SWT Program stakeholders in the United States including employer associations, labor unions, immigrant and worker's rights activists, local elected officials, federal agencies, sponsors, program participants, congressional staff, and Department offices. (Tab 4)

Based on these consultations and the October 2011 decision by the Secretary to reform the SWT Program, ECA crafted a two-part new rulemaking strategy for 2012. Balancing the need for immediate action (in advance of the summer 2012 SWT Program cycle) with the desire for public comment, and recognizing that some of the proposed changes will likely be controversial, we believe a two-step approach would be advisable:

I. Publication of an Interim Final Rule (IFR) in/around March 2012, which can take effect immediately. An IFR would permit us to address concerns about the health, safety, and welfare of participants and adherence to the intent of the Program– in time for the summer 2012 cycle. The provisions we envision including in the IFR (Tab 1, subject to further refinement) would build directly on the successes of the six-country pilot initiated in summer 2011 and/or directly improve the experience of SWT Program participants. Under the IFR process, new (final) regulations are published in the *Federal Register* and public comment is solicited at the same time; subsequent revisions could be made if/as appropriate.

   The Department's use of the IFR requires OMB approval. We have been in contact with OMB about the IFR process, including the possibility of OMB's completing its review in 60 days rather than the usual 90. ECA's working level contacts at OMB have expressed their openness to this possibility.

II. Publication of a Notice of Proposed Rulemaking (NPRM) in late summer 2012. Publication of the NPRM would be followed by a 60-day public comment period, analysis of comments, and then (if appropriate) publication and entry into effect of final regulations. ECA selected provisions for likely inclusion in this rulemaking (Tab 2, subject to further refinement) on the basis of their impact on the private sector, congressional interest, and/or possible impact on relations with participating countries.

Some sponsors have complained forcefully that the pace of the reforms (the summer 2011 IFR and six-country pilot program, combined with the recent cap on participant levels and now anticipated new rulemaking in 2012) have not allowed them sufficient time to adjust their business practices. By and large they dislike the IFR process, consider it hasty and arbitrary, and cite direct harm to their business caused by the rapid changes. They have told us they are taking these complaints to Congress, though we have yet to see any indication of congressional support for their position. Notwithstanding these potential criticisms, we think a solid case can be made that these changes are needed and that some are needed urgently.

Even with a first tranche of regulations entering into force prior to the summer of 2012, some 2012 summer participants will enter the United States (and be grandfathered in) under the current rules since they are already being selected and issued visas for the coming spring and summer seasons. While this will mean that some participants are treated differently than others for a brief period, to do otherwise, however, would create major problems for our embassies and consulates as placements are canceled – and possibly visas revoked – for students who paid their fees and made their summer plans in good faith, as well as for employers and sponsors that already have agreements for SWT employee placements.

We consider the following issues to be addressed in 2012 to be both particularly significant and controversial:

- *New Cultural Component*: Our proposed IFR regulations will underscore that a cultural dimension is essential to any SWT experience and that sponsors must include such a dimension in any placement decisions. Rather than mandating a specific type of cultural program, in the IFR we intend to suggest two broadly acceptable areas as illustrative: activities that acquaint participants with recognized features of American culture and history (national parks, historic sites, major cities, scenic areas), and activities that engage participants with the community in which they work and live. Our core presumption is that solely work-based cultural exposure is insufficient for meeting the intent of SWT Program. How sponsors address cultural activities will be a major factor in their re-designation every two years, and in ECA's compliance and sanctions decisions.

- *No More Jobs in Factories, Manufacturing, Warehouses, Retail Shipping/Packing Operations and Other Such Facilities (including seafood packing plants)*: In the IFR we intend to prohibit completely jobs in factories, manufacturing, warehouses, retail shipping/packing operations and other such facilities. Our estimate (based on 2011 job placements) is that this prohibition will remove approximately five to eight percent of expected job placements in 2012 (5,000 - 8,000 jobs). Seafood packing jobs accounted for approximately two-thirds of these types of SWT positions in 2011, and were highly localized in Alaska and the Pacific Northwest. The seafood packing industry and the sponsors that supply workers to the industry are making a concerted effort to oppose this prohibition. The remaining third of these types of positions tended to be in agribusiness (e.g., Ghirardelli and Seneca Foods), other manufacturing (e.g., uniforms), printing, and online sales fulfillment.

We find this type of employment to be incompatible with the purpose of the SWT Program. As a rule, such jobs offer few opportunities for interaction with a cross-section of Americans during work hours. In addition, Senator Begich (D-AK) wrote to the Secretary expressing concern about the harmful impact of too many SWT students on jobs, housing, and social services for Americans in small communities in Alaska. Other members of Congress have yet to address directly the issue of prohibiting such employment.

- *Maintain Pre-Placement Requirement for SWT Program Participants from Non-Visa Waiver Countries*: Although we had initially contemplated extending the job pre-placement requirement to SWT Program participants from visa waiver countries as well, as a result of consultations with posts and the Bureau of Consular Affairs (CA), we have decided not to do so. The current requirement covers approximately 87 percent of participants. This means that, for example, a New Zealander will still be able to come to the United States for SWT and find a job once here. However, sponsors must still vet these jobs before the participant may begin employment. **This decision entails no regulatory change.**

- *No Prohibition on Housekeeping/Janitorial Work*: Our 2011 analysis of over 10,000 housekeeping/janitorial SWT positions indicated that these positions generally fall within the hospitality, recreation, and tourism sectors and the vast majority of the work appears to be genuinely seasonal. This work allows for more interaction with Americans and a greater window into the United States than other unskilled work provides. Additionally, eliminating these jobs may increase competition between SWT students and American youth who, according to some SWT employers, prefer the "front of the house" seasonal unskilled positions (e.g., desk clerk, bellhop, coat checker). **This decision entails no regulatory change.**

- *Modest Changes to Housing and Transportation*: In the IFR, we are strengthening the existing requirement for sponsors to assist participants in identifying suitable housing. We are adding assistance with housing and transportation to the factors in our re-designation and other reviews of sponsors.

- *Added Protection for American Workers*: We will include in the IFR a few new safeguards against adverse impact on American workers, such as a more precise definition of temporary seasonal employment and a bar against SWT job placements during layoffs or lockouts. The cap on participant numbers and the expansion of prohibited jobs for SWT will also diminish SWT availability for seasonal temporary jobs of interest to American workers. We will not, however, require SWT sponsors to conduct labor market tests or other certifications such as those required for H visa temporary workers. We reviewed nearly 109,000 intended SWT job placements from the past year and found only isolated cases of year-round SWT employment patterns. Those will be stopped through increased monitoring by ECA and the tighter restriction of only temporary seasonal work.

The Larger Strategy

This proposed 2012 two-part rulemaking strategy is but one element of a broader series of SWT Program reforms that ECA with partners in the Department and at other agencies are already implementing. Reform will continue until the program meets our objectives fully. Additional major reform components are listed in Tab 3. The reforms we are undertaking will significantly reduce the opportunities for wrongdoing and catch it much more quickly when it does occur. However, in an exchange program of this size and complexity that by design offers young foreigners open exposure to the United States, there is no way to completely eliminate problems such as misconduct on the part of participants or employers; attempts to utilize the program for fraudulent, illegal, and unethical purposes, or unfortunate accidents including the death of participants.

In the coming weeks, we plan to re-engage some of the journalists who had been following the SWT issue, including the *New York Times* and the *Harrisburg Patriot-News*. We would ensure, to the extent we are able, that our plan to implement the new rulemaking strategy is reflected in our discussions with these and other reporters.

Attachments:

Tab 1 – SWT Program 2012 Interim Final Rule – Proposed Major Actions
Tab 2 – SWT Program 2012 Notice of Proposed Rulemaking – Proposed Major Provisions
Tab 3 –SWT Program Reform – Administrative and Other Measures
Tab 4 – Summary of SWT Program Stakeholder Consultations

Summer Work Travel Program 2012 Interim Final Rulemaking
Proposed Major Actions

- Setting out a statement clearly defining Summer Work Travel as a cultural experience and requiring sponsors to fulfill the purposes of SWT other than employment (i.e., providing for cultural opportunities and opportunities for community impact), and to be more attentive to the health, safety and welfare of participants, including housing and local transportation arrangements. ECA will give high priority to this approach in re-designation decisions every two years. ECA issued a Guidance Directive to this effect on December 13, 2011.

- Encouraging permissible employment by emphasizing positions in the service sector, notably leisure and hospitality and accommodation and food services.

- Establishing core criteria for suitable SWT job placements, including interaction with Americans and avoidance of over-concentration of SWT participants in isolated locations.

- Significantly expanding prohibited jobs:

    - No positions in manufacturing, warehouse and factory work, catalogue/online order distribution centers;

    - No hazardous occupations as identified through Department of Labor data, such as construction, farming and ranching, roofing, repair and maintenance, and refuse and recyclable collection;

    - No jobs involving controlled hazardous substances, such as pesticides or asbestos;

    - No jobs directly involved in gaming and gambling;

    - No jobs involving driving;

    - No jobs requiring sustained physical contact with other people and, in particular, no jobs that require adherence to the Center for Disease Control and Prevention's Universal Blood and Body Fluid Precautions guidelines. (e.g., no provisions of body piercings, massages, tattoos, manicures/pedicures);

    - No position requiring work that falls predominantly between the hours of 10:00 PM and 6:00 AM.

- Re-emphasizing the adult entertainment industry prohibition by specifically prohibiting jobs with escort services, adult book/video stores, massage parlors, and strip clubs.

- Instructing sponsors to use particular prudence and caution when verifying employment in industries that offer legitimate employment but also have been known to be associated with human trafficking, such as janitorial services, housekeeping, and modeling agencies.

- Requiring sponsors to provide ECA with itemized breakdowns, by country, of all fees a participant pays, to enable the Bureau to identify costs that are improper or out of line with industry practice.

- Adding safeguards against adverse impact on American workers by:

    - Defining "seasonal" employment more precisely;

    - Barring multi-season placements at the same employer and/or SWT employment during a layoff or lockout.

- Strengthening the requirement for sponsors to assist participants actively in identifying proper housing if housing is not provided, and ensuring that the cost of provided housing does not violate the Fair Labor Standards Act.

- Specifying steps sponsors must take to verify employment.

TAB 2

Summer Work Travel Program
2012 Notice of Proposed Rulemaking (NPRM)
Proposed Major Provisions

- Program Name Change: A change to "Student Work Travel Program" would reinforce the focus on young people and address persistent confusion about the underlying purpose of the Program. Due to possible financial implications for sponsors (e.g., changes to forms, brochures, etc.), public comments must be taken into account.

- Cap on Work Hours: This is by far the most controversial of all the SWT Program proposals. Almost all SWT employers expect their participants to work more than a 40-hour week, often well beyond, generally matching the desire of the foreign students to maximize their summer income at a time when they have no academic or family obligations. Ample public comment is needed.

- Posting Fees On-Line: This would greatly enhance transparency, especially for the Program participants, and would also allow all parties, including the general public, to understand when rates being charged are out of line with the sponsor average. The on-line posting of fees would also expose any foreign agents adding fees or charging excessive rates. Because sponsors may consider the data proprietary information, as well as an information collection, there might be additional requirements under the Paperwork Reduction Act.

- Age Limits: Current SWT Program regulations only state that participants must be full-time students enrolled in a *bona fide* degree–granting, post-secondary academic institution. There is no upper or lower age limit. To the extent permissible by law, we propose reinforcing the youth focus of SWT and reducing future problems by setting age limits. The precise ages would be worked out with CA, the regional bureaus, and L, but the lower age would be 18 and the upper age would likely be younger than 30 as of the program start date. In 2011, 96 percent of SWT participants were between 18 and 25 years old. CA validation studies indicate that as the age of a participant increases, so does the likelihood of his/her overstay in the United States.

TAB 3

Summer Work Travel Program 2012 Reform
Administrative and Other Measures

- Introduce a standard template for all SWT job offers to be co-signed by the sponsor, the employer, and the participant. On November 28, 2011, a proposed form (DS-7007) was published in the *Federal Register* for public comment.

- ECA's October and November 2011 on-site reviews of the 14 largest SWT Program sponsors who collectively are responsible for roughly two-thirds of SWT participants enabled ECA to give guidance directly to sponsors about their implementation of the SWT Program. Formal findings will be ready later this month.

- ECA intents both to expand and to reorganize the Office of Private Sector Exchange to enhance oversight and monitoring, funded by increased fee transfers from the Department of Homeland Security.

- Develop with CA a substantiated complaint directory of problem or mala-fide employers to be used to inform/deny visa applications.

- Institute participant surveys during the course of the Program to get quicker and more comprehensive feedback, increasing the likelihood of addressing problems at an early stage, establishing a baseline for data, and reducing reliance on anecdotal information.

- Ensure that sponsors actively terminate the programs of participants who do not comply with regulations, thereby alerting the Department of Homeland Security.

- Continue discussions with the Department of Labor on ways to prevent unwanted migration between the J visa and labor visas, and on commissioning a study of the economic impact of J visa holders.

- Increase transparency and clarity by initiating a series of periodic "SWT Alerts" to sponsors informing them of specific instances of non-compliance or fraudulent activity and highlighting best practices.

- Continue verification of employers and job offers by the Kentucky Consular Center (KCC). The proposed 2012 reforms are intended to increase sponsor compliance with this requirement.

- Explore the option of a mandatory on-line course on the history and culture of the United States for SWT participants.

TAB 4

Summer Work Travel Program Stakeholder Consultations

Sponsors

On November 9, 2011, ECA Acting DAS Ruth and CA DAS Donahue addressed a town hall in the Dean Acheson Auditorium for an invited audience of SWT Program sponsors. In addition to the comments at the town hall, ECA solicited written comments. Eighty written comments have been received to date from sponsors, employers, and former SWT Program participants.

Employers and Employer Associations

ECA has reached out to employers, both large and small, as well as employer associations. In addition to office meetings, Acting DAS Ruth addressed a forum for employers in Washington, DC, in September 2011 and in early December 2011 met with the Seasonal Workforce Committee in Ocean City, MD (comprising city council members, officials of the chamber of commerce, housing mangers, civic organizations, and numerous employers). Employers are strong supporters of the SWT Program and argue that, for a variety of reasons, it is not possible to hire sufficient Americans to meet seasonal employment needs and that SWT Program participants are vital to employers' ability to operate. Employers welcome measures that would eliminate "bad actors" but oppose intrusive regulation.

Congress

Acting DAS Ruth has also briefed, in person or by telephone, staff from the Senate Foreign Relations Committee, House Foreign Affairs Committee, Senate Appropriations Committee, Senate and House Judiciary Committees, and more than 20 other congressional offices. Although Congressional reaction has been muted, all offices have welcomed the Secretary's leadership in initiating SWT Program reform. Members and their staff have expressed concern in several letters to the Secretary about mistreatment of participants and the needs of business in their states and districts.

Exceptions are Senator Leahy (D-VT), whose staff conveyed his desire to see the SWT Program suspended immediately following the October piece in *The New York Times*, and Senator Begich (D-AK), who wrote a letter to the Secretary voicing his concern about the negative impact of the SWT Program, as it currently operates, on small communities in Alaska.

Interagency

ECA is working closely with the Department of Labor on a range of issues involving permissible and prohibited occupations, preventing adverse impact on the American workforce, and stemming migration from labor visas to the J visa. ECA is also in contact with the Small Business Administration, the Domestic Policy Council, and the Immigration and Visa Security Office of the National Security Staff (NSS). Through its own compliance office and through the NSS, ECA is in touch with the law enforcement community, including the FBI, the Department of Justice, and the Department of Homeland Security.

Labor Unions and Advocacy Organizations

ECA Acting DAS Ruth has met with representatives of the AFL-CIO, the Center for Immigration Studies (CIS), and the Economic Policy Institute (EPI). The AFL-CIO adopted a measured tone in the briefing and has not responded to an invitation to comment in writing. CIS and EPI are institutional critics of the J visa program more broadly and will continue to target not only the SWT Program but also other Exchange Visitor Program categories they identify as labor programs: Intern, Trainee, Au Pair, Teacher, and Alien Physician.

Department SWT Program Working Group

The Department's Working Group met weekly October through December after the Secretary approved the SWT Program "Keep It; Cap It; Fix It" Action Memo. The SWT Program Working Group is made up of representatives from the regional bureaus, CA, PA, G/TIP, DS, R, ECA, H, L, M, and DRL.

- Annual Management Audit: This measure, which will enhance Department oversight at no cost to the U.S. government, is an information collection that must be in compliance with the Paperwork Reduction Act.

- Limiting Staffing Agencies and/or Independent Contractor Models: ECA's analysis of the 2011 SWT job placements indicate that the issue of staffing agencies/service companies and independent contractors needs additional consideration. ECA has concerns that placement of SWT participants with staffing and management companies muddles the sponsor-to-participant-to-employer relationship (as occurred in Palmyra), but the use of these firms is so widespread in the hospitality industry, particularly in janitorial and hotel management services, that additional expert input and public comment are critical.

February10, 2012

Mr. Jeffrey Zients
Acting Director
Office of Management and Budget
725 17th Street, NW
Washington, DC 20503

Dear Mr. Zients:

I understand the Office of Management and Budget is currently reviewing the Department of State's proposed interim final rule to exclude the manufacturing sector from the J-1 Visa Summer Work Travel program (J-1). The Department includes seafood processing facilities in this interim final rule.

I strongly object to the use of the interim final rulemaking process to exclude seafood processing from the J-1 program. Such a rulemaking should only be taken with advance public notice and the opportunity for comment from the affected sectors. There is no compelling reason to use the interim final rulemaking process for the Alaska seafood processing industry and such action would be extremely disruptive to 2012 summer season fisheries.

Recruitment for 2012 employment has already begun. Just months before the summer salmon season, J-1 students could not be easily replaced. This abrupt reduction in the available workforce would impact not just the participating students and processing companies but fishermen who depend on these processors to sell their catch and the communities in which these facilities operate. Remote Alaska communities where the local economy largely depends on relatively small processing facilities are likely to suffer the greatest hardship.

The enclosed letter to Secretary Clinton expands on my concerns and suggests an alternative approach to addressing any issues regarding the J-1 program in the Alaska seafood industry. Given the harm this sudden decision could inflict on the largest private sector employer in my state, I request you reject the proposal for an interim final rulemaking and direct the State Department to proceed with a formal process of proposed rulemaking which includes advance notice and comments from the affected seafood sector.

Thank you for your attention to this matter. If you have any questions regarding this, please contact Bob King in my office at 202-224-3004.

Sincerely,

Mark Begich
United States Senator

COMMITTEE ON ARMED SERVICES
COMMITTEE ON THE BUDGET
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

MARK BEGICH
ALASKA

United States Senate
WASHINGTON, DC 20510

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION
CHAIRMAN, SUBCOMMITTEE ON OCEANS, ATMOSPHERE, FISHERIES AND COAST GUARD
COMMITTEE ON VETERANS' AFFAIRS

February 7, 2012

The Honorable Hillary Rodham Clinton
Secretary
U.S. Department of State
2201 C Street, NW
Washington, DC 20520

Dear Secretary Clinton:

As you review the J-1 Visa Summer Work Travel program, I request you consider the impacts of any proposed changes in the program to participating employers in Alaska's seafood industry. Thousands of J-1 participants come to Alaska every year and the Summer Work Travel program is important in filling the seasonal employment needs of many seafood processors. Any abrupt change which reduces the available labor pool in Alaska would have negative consequences to the seafood industry.

The incident in Palmyra, Pennsylvania, last year raised concerns about the Summer Work Travel program which certainly warrant State Department review. The safety and working conditions of participating students is a primary concern as is their treatment by recruiting contractors. As I wrote last November, similar issues have arisen in Alaska, but the seafood industry has assured me that when notified of such concerns within their sector, they have responded quickly and appropriately.

Now the State Department is considering an Interim Final Rule which would take effect in the spring of 2012 and would exclude any Summer Work Travel program participants from employment in manufacturing and packing facilities which includes seafood processing plants. This would affect some 3,000 to 5,000 students who have participated annually in the seafood processing industry in Alaska and the Pacific Northwest. Additionally, the proposed rule would limit their overtime opportunities.

Such an abrupt change in the available labor pool just before the start of the salmon season would have immediate negative consequences for the companies and the fishermen and communities which depend on their operations. The seafood industry is a major part of Alaska's economy. Alaska produces some two million tons of seafood every year—over half the nation's production of wild fish—and employs some 70,000 people annually, the largest private sector employer in the state.

Foreign students are a significant source of labor in the seafood industry, especially for smaller firms. These companies have actively sought to fill their labor needs with domestic workers but have not been able to do so. Processors house student workers in

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SUITE 308
ONE SEALASKA PLAZA
JUNEAU, AK 99801
(907) 586-7700

SUITE 101
805 FRONTAGE ROAD
KENAI, AK 99611
(907) 283-4000

SUITE 230
1900 FIRST AVENUE
KETCHIKAN, AK 99901
(907) 225-3000

SUITE 309
851 EAST WESTPOINT DRIVE
WASILLA, AK 99654
(907) 357-9956

SUITE SR-111
RUSSELL BUILDING
WASHINGTON, DC 20510
(202) 224-3004

the same facilities as other employees and comply with workplace safety rules of the Occupational Safety and Health Administration (OSHA). Sudden changes which reduce the available labor pool would have a detrimental impact on their operations which in turn would negatively affect fishermen who depend on those markets to sell their catch, and the broader communities in which the companies operate.

Madame Secretary, I know you are familiar with this work from your personal experience during college. The work can be tedious and when the fish are running, require long hours. Frankly, this work is not for everyone, but for those willing to take on the challenge, the seafood industry allows foreign students to experience parts of Alaska which many tourists pay a premium to visit. The overtime earned helps students afford further travel in our nation during the remainder of the four-month visa period.

Summer Work Travel program participants should be fully informed of the nature of the working conditions and time expectation. Seafood companies which have provided me with examples of their outreach literature appear to be upfront in their recruiting efforts. I will continue to request the industry report to me on these efforts and other steps they take to comply with the program's goals and intent.

When I said the Summer Work Travel program should be reviewed in my earlier letter, I did not suggest the program should be ended as is now proposed for the seafood industry. As you review the J-1 visa program, I urge you to listen to members of the domestic seafood processing industry about the importance of this program and ways in which their participation meets the goals and intent of the program including its cultural aspects. I'll add visiting foreign nationals also contribute to our nation's cultural, education and economic life and it is important we continue our tradition of welcoming foreign students to the United States.

I request you take the Alaska seafood industry's concerns into account as you consider any interim or final rule which modifies the Summer Work Travel program. Please feel free to contact Bob King in my office at 202-224-3004 if you have any questions or concerns regarding this request.

Sincerely,

Mark Begich
United States Senator