

Mayor

Kristin Smith

Council Members

Debra Adams

Aaron Hansen

Kasey Kinsman

Michael Mickelson

Wendy Ranney

Cathy Sherman

David Zastrow

City Manager

Samantha Greenwood

City Clerk

Susan Bourgeois

Deputy Clerk

Colette Gilmour

**City Council Work Session
April 16, 2025 @ 5:00 pm
Cordova Center Community Rooms
Agenda**

A. Call to order

B. Roll call

Mayor Kristin Smith, Council members Debra Adams, Aaron Hansen, Kasey Kinsman, Michael Mickelson, Wendy Ranney, Cathy Sherman, and David Zastrow

C. Work Session topic

1. Rebuilding the City of Cordova General Fund

- a. Manager’s Memo..... (page 1)**
- b. Resolution 11-22-31 committing \$3,896,575 to South..... (page 5)**
Harbor Rebuild Project, approved Nov 30, 2022
- c. Ordinance 1215 authorizing \$3M from PF for Harbor..... (page 7)**
Project cashflow, adopted Feb 21, 2024
- d. APCM, thoughts on repayment of loan..... (page 8)**
to Permanent Fund

D. Adjournment

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AGENDA ITEM 1

City Council Work Session Date: 4/16/25

CITY COUNCIL COMMUNICATION FORM

The goal of this work session is to determine how to sustain cash flow for FY25 and into the future and determine the best way to build cash reserves while repaying the \$3 million permanent fund loan.

Staff will present a PowerPoint during the work session to walk through this memo's topics. The topics are:

1. Revenue Cycle
2. What did the \$3.9 million pay for, and where did it come from?
3. What did the \$3 million pay for, and where did it come from?
4. Where are we now?
5. Permanent Fund Repayment, Cash Reserves, and Cash Flow

Revenue Cycle

Cash flow refers to the total amount of money being transferred into and out of a city's bank accounts, particularly as it impacts liquidity. The city's cash flow revenue primarily depends on property taxes, sales taxes, and revenue from the federal and state governments. Most of the city's revenue is collected in the third and fourth quarter from sales, property, and fish taxes. This is important to understand because our revenue is low in mid-summer, with June being our lowest month for cash flow. Cash reserves enable the city to meet its monthly expenses and are replenished in the fall. Understanding where revenues are versus expenses throughout the year is difficult to predict until the revenue is replenished in November. We can look at previous years and get an idea, but it is still a guess due to revenue and expense unknown ups and downs, especially with recent years not being typical (with harbor construction & ARPA COVID funds).

Cash reserves are funds the city has to cover unexpected expenses or short-term financial needs, acting as a buffer against unforeseen circumstances. A goal in the past has been to always maintain 3 to 6 months of operating expenses as cash reserves. Using the FY 25 budget numbers for the city, the cash reserves would be \$3.7 million for three months to \$7.3 million for six months (GF only). Including enterprise funds, the total would be \$4.9 million for three months to \$9.8 million for six months of reserves.

What did the \$3.9 million pay for, and where did it come from?

On November 30, 2022, Resolution 11-22-31 was passed by the city council, committing \$3,896,575 (3.9) to close the gap on the contract with Turnagain. Once this was passed, the contract with Turnagain was signed, and work began. The resolution also states that staff would work to secure other funding to offset the gap in funding. The staff secured \$1 million from a designated legislative grant and \$750,000 from the Denali Commission. A portion of the Denali Commission grant (\$350,000) was used for city-prompted change orders.

What did the 3 million pay for, and where did it come from?

When the south harbor rebuild project began, the city had secured five funding sources. In January of 2024, MARAD funding was released making it the sixth funding source. We were required to expend the other funding sources including \$3.9 million from the General Fund, prior to applying for reimbursement from MARAD. After the \$3.9 million was paid out of the General Fund, we did not have enough cash flow to work through the MARAD reimbursement process. To initiate the reimbursement process and maintain cash flow, we borrowed \$3 million from the Permanent Fund (see Ordinance 1215). In essence, we recycled the \$3 million by paying Turnagain, submitting a reimbursement request, and waiting for MARAD to reimburse us, thereby maintaining the city’s cash flow while we continued the cycle of payments. We have received the final payment from MARAD, and the \$3 million is now in the AMLIP account earning interest.

The Alaska Municipal League Investment Pool (AMLIP) is a nonprofit corporation established by the Alaska Municipal League to provide investment services in accordance with the Alaska Investment Pool Act of 1992. The purpose of AMLIP is to provide a safe, short-term investment option to maximize revenue for boroughs, cities, school districts, and other state government entities. It is similar to a money market account; the cash can be deposited and withdrawn at any time. On 4/11/25 the interest rate of this account was 4.29%. The city puts as much cash as possible into this account to maximize interest earnings.

Where are we now?

In FY23, we paid \$3.9 million from the general fund to the south harbor rebuild project (see resolution 11-22-31). Additionally, the harbor reserve fund has been depleted to cover city-incurred expenses for the harbor, including environmental, engineering, and project management expenses. In FY23, we ended the year with \$128,900 in the general fund. We started FY24 with that amount, which is a much smaller-than-normal cash reserve balance. For the last 7 years, the average beginning FY balance has been \$1.8 million, which helps with cash flow through the low points in the revenue cycle. This depletion is mainly because of the drawdown on the general fund to cover the shortfall of the harbor project funding. The table below shows the last three years of audited ending balances.

	Audit FY2021	Audit FY2022	Audit FY2023	Audit FY2024
Starting FY Cash Reserve Balance	\$1.5M	\$2.07M	\$3.28M	\$128,928
Ending FY Cash Reserve Balance	\$2.07M	\$3.28M	\$128,928	

The finance staff is preparing the FY24 audit. The auditors are scheduled to arrive in May, and we anticipate completing the audit in August.

We know that in FY24, we struggled with cash flow, which was at its lowest point in June. June is the point in our revenue cycle when our incoming revenue is lowest, and the cash reserve from the November revenue influx is also getting smaller. Using the FY25 budget, the city's average monthly expenses are \$1.6 million. This includes payroll, monthly school payments, insurance, bond payments, and recurring monthly bills so that some months may be more and others less. At the beginning of June, our lowest point in the year, we had \$2.5 million dollars in the bank. Second quarter sales tax is due on July 31st; second quarter is, on average, our smallest revenue period. We slowly gain revenue as we move towards the fall. Revenue is comprised of all revenue sources, including enterprise funds. The enterprise funds and monthly online sales tax revenue increased over this time, which allowed us to stay above the \$1.6 million monthly average cost.

In FY24, we also incurred some unbudgeted expenses, including the transition out of our finance software, unbudgeted contracts, and other unexpected costs associated with the management transition. Revenue also came in under budget in FY24. We anticipate that the FY24 year-end balance will be similar to the FY23 year-end balance. The audit will provide these final numbers. This means that our cash flow will not be adequate to pay the monthly expenses because of the lower revenue collected than budgeted for FY24 and the unknown ending balance of FY24.

Permanent Fund Repayment, Cash Reserves and Cash Flow

The \$3 million borrowed included interest, which we estimate to be about \$200,000. We are at a point where we have the funds to pay back the \$3 million in the AMLIP account, not the interest. The AMLIP account also has the \$772,628.00 fisheries disaster money received in FY24. These were unbudgeted funds. If the funds are left in the general fund (AMLIP), as shown in the table below, the \$3.9 million would be reduced to \$1.8 million. As described above, we will need additional funds to cover monthly expenditures due to cash flow issues caused by the depletion of the general fund.

General funds used for harbor rebuild	\$3,896,575.00
Grant from Representative Peltola	(\$1,000,000.00)
Denali Grant	(\$750,000.00)
City directed change orders	\$400,000.00
Fisheries Disaster Funds	(\$772,628.00)
Total amount removed from GF	\$1,773,947.00

The issue that arises from our revenue cycle is that it is difficult to tell where we are financially in quarters 1 and 2 because the most significant influx of revenue is in the fall. Property tax is the only significant revenue source for which we have a number before the fall. Until the audit is complete, we will not know exactly where we ended FY24, but we will have an unaudited Revenue – Actuals vs Budgeted report for you during the work session presentation. There is also concern about revenue goals for FY25, so many things are unknown now, such as forest receipts, the fishing season, and what sales tax revenue will come in at. In the past, we had cash reserves to get us through this time. Currently, we do not.

I have consulted with Blake Phillips from Alaska Permanent Capital Management, who manages the city's permanent fund. I have attached his write-up. His recommendation is to leave the \$3 million in the AMLIP account. Repaying the funds now and then quickly turning around and making draws to sustain cash flow will cost the city more than leaving the funds in the AMLIP account. He will be available on the phone at the work session for questions.

I believe that our best strategy is to do just that: leave the \$3 million in the AMLIP account. We will have quarterly reviews of finances and can compare past revenue to at least know if we are keeping pace. In the end, it's the fourth quarter that will make us. After the fourth quarter, we will better understand where we are, and we could discuss possible partial repayment and the interest. My concern with paying interest is that we are taking money from the same pocket we are trying to replenish. I don't believe that paying interest meets this work session's end goal: to sustain cash flow for FY25 and into the future and determine the best way to build cash reserves while repaying the \$3 million permanent loan.

**CITY OF CORDOVA, ALASKA
RESOLUTION 11-22-31**

**A RESOLUTION OF THE COUNCIL OF THE CITY OF CORDOVA, ALASKA
COMMITTING \$3,896,575 FOR THE SOUTH HARBOR REBUILD PROJECT**

WHEREAS, the South Harbor Rebuild has been the number one priority for Cordova for over a decade; and

WHEREAS, Cordovans supported the project with a voter-approved ½% local raw-fish tax; and

WHEREAS, the conceptual design for the South Harbor Rebuild was completed in 2020 for grant application purposes and came in at a cost of \$32M; and

WHEREAS, City secured \$35.7M towards the projects as follows: a \$20M Federal Department of Transportation RAISE grant, a State of Alaska Tier 1 Grant of \$5M and voter-approved bond for the \$5M match, \$3M in unrestricted funds from the State of Alaska, a \$2M Clean Water Loan, and \$700K in Pink Salmon Fisheries Disaster money; and

WHEREAS, Harbor has committed to expend \$1,000,000 on contracts for design, engineering and environmental documents required to complete necessary pre-development work; and

WHEREAS, COVID-related price inflation has resulted in a dramatic increase in the project cost; and

WHEREAS, City of Cordova issued a Request for Proposals for which two responses were received; and

WHEREAS, neither proposal completes the project as presented in the RFP with the funding available; and

WHEREAS, certain critical elements of the project are directly tied to the MARAD/RAISE grant (\$20M) and State Tier 1 Grant (\$5M) and matching Harbor Bond (\$5M), and any changes to the project puts those funds in jeopardy; and

WHEREAS, City must sign a contract and commit to funding that contract to keep the project on schedule for construction in fall 2023 or risk loss of some funding; and

WHEREAS, after proposals were reviewed and scored, City determined the submission of Turnagain Marine Construction to be the best value proposal and issued a notice of intent to award; and

WHEREAS, City has negotiated a reduced scope of work with Turnagain Marine Construction at a price of \$39,596,575 which will complete the project *with* required critical elements that ensure compliance with grant agreements; and

WHEREAS, the negotiated reduced scope of work exceeds the available funds by \$3,896,575;
and

WHEREAS, City has identified \$4M in unrestricted general funds that are not needed within the next 12 months for City operation and those funds, if pledged to the project, would give staff time to pursue other funding; and

WHEREAS, those funds are currently invested in an interest-bearing account and would not be tapped until the funds were needed; and

WHEREAS, if additional funds are not raised, City would be contractually liable to provide those funds to the project; and

NOW, THEREFORE, BE IT RESOLVED, that the Council of the City of Cordova, Alaska, commits \$3,896,575 to the South Harbor Rebuild Project.

PASSED AND APPROVED THIS 30th DAY OF NOVEMBER 2022



David Allison, Mayor

ATTEST:

Susan Bourgeois, CMC, City Clerk

**CITY OF CORDOVA, ALASKA
ORDINANCE 1215**

**AN ORDINANCE OF THE COUNCIL OF THE CITY OF CORDOVA, ALASKA,
AUTHORIZING THE TRANSFER OF \$3,000,000 FROM THE GENERAL RESERVE FUND
(PERMANENT FUND) TO THE HARBOR ENTERPRISE FUND TO SUSTAIN CASH FLOW
FOR THE REMAINDER OF THE SOUTH HARBOR PROJECT**

WHEREAS, the Council of the City of Cordova, Alaska, will allow a transfer of \$3,000,000 to facilitate cashflow during the 2021 RAISE grant reimbursement process funding the South Harbor Reconstruction Project; and

WHEREAS, the following interfund transfer, pursuant to this Ordinance, is intended to provide a source of money to pay South Harbor Project expenses; and

Fund #	Fund Title	Purpose	Amount
505-390-49998	Transfer from Permanent Fund	Habor Project Cash Flow	\$3,000,000

WHEREAS, the RAISE grant agreement was executed on January 19, 2024 and reimbursement is currently in process; and

WHEREAS, delays in the grant agreement execution have depleted the project’s budget and additional funds are needed to keep the project on schedule; and

WHEREAS, the City anticipates the entirety of these borrowed funds will be reimbursed as the RAISE process continues through the life of the project; and

WHEREAS, while the exact amount of funds needed to continue with the project shall not exceed \$3 million, the amount borrowed may be less; and

NOW, THEREFORE BE IT ORDAINED that the Council of the City of Cordova, Alaska, hereby authorizes the transfer of \$3,000,000 from the General Reserve Fund (Permanent Fund) to the Harbor Enterprise Fund for expenses associated with construction costs of the South Harbor Project pending RAISE grant reimbursements.

This ordinance shall be enacted in accordance with Section 2.13 of the Charter of the City of Cordova, Alaska and published within ten (10) days after its passage.

1st reading and Public Hearing: February 7, 2024
2nd reading and Public Hearing: February 21, 2024

PASSED AND APPROVED THIS 21st DAY OF FEBRUARY 2024.





David Allison, Mayor

ATTEST:



Susan Bourgeois, CMC, City Clerk

April 8, 2025

Thoughts on repayment of loan to the Cordova Permanent Fund

In the first quarter of 2024, it was decided that the Cordova Permanent Fund would make a short-term loan to the city to facilitate the completion of the new harbor project, with the intention of repaying of this loan as funding from grants and other sources was received.

One year on, the plan of providing a loan from the permanent fund to see the harbor project through until funding sources came through has occurred. This puts the city in the position to repay that loan and the council justly wishes to do so.

At the city's request, APCM offers recommendations for consideration, a prudent approach to closing out the loan process and returning the funds to the permanent fund.

1. Doing what is financially best for the city in the long term.

The permanent fund carries the highest expected return over the long term, of the different financial accounts that the city currently utilizes. Thus, the more money that can be allocated to this "bucket" over time will provide for the highest benefits to the city in the future. However, it is important to appreciate that these expectations are based upon the money remaining invested over the course of the ride.

Withdrawing and contributing funds over the course of this path can have large effects on the ending value. Depending on the timing of the withdrawals or contributions, this can open the door to selling into tumbling markets to raise cash, or reinvesting following long periods of outperformance.

2. Preserve in trust assets of the City for the benefit of present and future generations of Cordova residents.

This is the stated purpose of the permanent fund. So the stewardship of the fund for the future must also be given importance. I think this piece also should consider the way in which the permanent fund is utilized, accessed, contributed to, and drawn upon. The actions taken by this council and those prior will provide a historical chart and guidance for the future councils on how to approach the permanent fund as a resource, but also ensure it continues to provide future generations of Cordovans the benefits that current generations are able to benefit from.

Recommendation

APCM's recommendation as your investment advisor and as your fiduciary, is to take a measured approach that will make sure we are investing the funds of the City to optimize returns, but also not open the door to avoidable risks.

It is our understanding that while the planned grant funds came through to reimburse the permanent fund, other costs that were covered by the general fund without reimbursement have put the City into a lean financial stance. So, while the city is technically in the position to reimburse the permanent fund in its entirety currently, unforeseen expenses or even general fluctuations in revenues could quickly put the city back into a position of requiring another draw or loan from the permanent fund.

Two concerns in that scenario:

- 1.) we need to sell securities at inopportune market times and
- 2.) it sets a precedent for behavior that encourages the permanent fund to be thought of as a readily accessible source, that over the long term tends to lead to behavior not favoring perpetuity.

Both of these potential negative outcomes could potentially outweigh the benefit of investing the funds more quickly. We support the reinvestment of the funds, but do not want to have unintended consequences.

Additionally, for those funds that are not reinvested into the permanent fund now, can be (as they currently are) invested in AMLIP at very attractive rates with almost no risk of fluctuation. And for the intermediate term we expect that yield to stay in excess of 4%. Thus, the long-term return for the permanent fund is expected to be 2-3% higher over the long-term, but in the short term the "opportunity cost"* is not high to taking a measured approach vs. all at once.

**Opportunity cost is being used here to describe the potential additional return expected from the permanent fund over the alternative. For example, if the permanent fund is going to earn an estimated 7% annually vs AMLIP yielding 4% (not actuals), the spread between the two investments is 3%. Thus, the opportunity cost of not putting the money into the permanent fund immediately would be the potential 3% additional return that would be foregone by staying in AMLIP.*