

# KETCHIKAN SHIPYARD, OPERATED BY VIGOR ALASKA



February 2023



## Current Status

Maintenance spending for 2021 was approximately \$650,000. In 2021, two major projects were completed to improve dry dock #1 and repair the assembly hall roof.

2022 maintenance spending is trending over budget. Major repair due to fire sprinkler malfunction in the assembly hall and an unanticipated failure of both assembly hall boilers has impacted overall operations and spending. An increase in the volume of ship repair work over 2021 is expected to lead to greater revenue in 2022.



## Jobs

- 75-100 direct jobs in Ketchikan
- 100-125 currently employed
- Year-round, steady jobs with benefits & advancement opportunities among strongest in the community



## Economic Benefits

- Reliable, cost effective and quality vessel maintenance repair and construction services
- Vigor Alaska LLC's gross revenues from operations are shared between AIDEA, Ketchikan Gateway Borough and the City of Ketchikan
- All share in facility profits when milestones are met
- Vigor Alaska's 2021 local purchasing and payroll contributed close to \$9.1 million to regional economy



## Project Description

The Ketchikan Shipyard, operated by Vigor Alaska, is located in Ketchikan, Alaska, and is adjacent to the Alaska Marine Highway System (AMHS) ferry facility. The shipyard consists of approximately 25.27 acres of real property, various buildings, fixtures and improvements, floating drydocks (10,000 ton and 2,500 ton lift capacity), various equipment and tools and other personal property.

The Department of Transportation & Public Facilities (DOT & PF) spent approximately \$30 million to construct the shipyard during the 1980s. The Ketchikan shipyard provides maintenance for of providing maintenance for the AMHS. Under an agreement with the State of Alaska, the City of Ketchikan subleased operation and management of the shipyard to private contractors.

In 1997, AIDEA acquired the title to and ownership of the Ketchikan Shipyard and entered into an agreement with Alaska Ship & Drydock for the operation of the shipyard. Vigor Industrial purchased the shipyard operator (ASD) in March 2012. The following year, ASD changed their name to Vigor Alaska.

## Location

Ketchikan, Alaska

## Partners

Land Owner: Ketchikan Gateway Borough & City of Ketchikan  
Lessee: AIDEA

## Financials

\$80.1 million\* in Federal and State funds expended for construction, upgrades, deferred maintenance, and other improvements.

\*Numbers reported from Vigor's 2021 Annual Operations and Performance Report received July 2022.

## Support

Support primarily comes from Vigor Alaska, Ketchikan Gateway Borough, the City of Ketchikan, Ketchikan Public Utilities, and the Alaska Marine Highway System.

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## History of Asset and Operating Agreement

AIDEA acquired title and ownership of the Ketchikan Shipyard in 1997 through an agreement with the State Department of Transportation and Public Facilities. AIDEA entered into an amended and restated ten-year operating agreement with Alaska Ship & Drydock, Inc. in 2005 which included two ten-year extension options. The operations of the shipyard were transferred to Vigor Alaska, LLC (Vigor) in 2012 and the operating agreement was subsequently extended for the first of the ten year extensions through November 30, 2025. Annual payments from Vigor Alaska, LLC for the use of the shipyard are based on a minimum maintenance requirement and a payment of a percentage of revenue, which is applied in three ways:

1. Reimbursement from R & R account to AIDEA for administrative costs up to \$18,000 annually, adjusted for inflation.
2. Repair and Replacement (R&R) Account contributions established under the agreement. Vigor's contributions to the R&R account are calculated as One percent (1%) of Vigor's gross revenues derived from uses of the shipyard. All cost of such maintenance, up to maximum annual limit of \$420,013, shall be borne by Vigor at Vigor's sole cost and expense.
3. Any remaining funds are to be distributed to AIDEA and the local Ketchikan governments once the R&R account is fully funded.

## Operating Agreement Amendment

On November 16, 2020 and through AIDEA Board Resolution G20-28, AIDEA and Vigor management executed Amendment No.6 to the Operating agreement that updated the calculation for Vigor's maximum obligation to identify the true costs of maintenance spending required to safely and efficiently operate the Shipyard, while maintaining AIDEA's asset to the highest possible standard. This included:

- An increase in Vigors' annual repair and replacement obligation by \$50,000, to a new annual maximum limit of \$420,013.
- Apply the annual increase retroactively beginning from 2018 and continuing for 5 consecutive years thru 2022.
- Review the total annual maintenance spending levels during Q1 2023 and adjust Vigor's total obligation amount up or down using historical costs from 2018 thru 2022 as a baseline.



## Current Operational Update

### Employees:

- Approximately 105 full-time employees
  - Approximately 90 employees were hired directly from Alaska with the remaining sourced from other Vigor locations or subcontractors as needed to fill vacancies
  - There are currently an additional 10 open positions that Vigor has been trying to fill for the last 6 months
- Employees voted to unionize in 2022. Bargaining between Sheet Metal Workers Local 23 and Vigor Alaska underway.

### Financials:

- 2021 Audited financials are expected to be delivered to AIDEA by the end of May 2022
  - 2021 results are expected to be weaker than 2020
- 2022 forecasted financials are expected to be 70% to 100% higher than 2021
  - 2022 is expected to generate the highest level of revenues since Vigor completed the Alaska Class Ferry work
  - Management believes that revenues will continue to be strong and maintain well above 2021 revenues as contractual repair and maintenance backlog continues to build

### Repair and Maintenance Fund

- All planned expenditures through Q2 2022 have been completed at or under budget.
- Major unplanned maintenance events are trending higher than anticipated primarily related to the electrical malfunction of the fire control panel.
- AIDEA and Vigor agreed to shift the wind and water line coating work to next year's expenditures budget to accommodate the need to meet the major unplanned maintenance expense of the fire control panel.
- AIDEA and Vigor will Review the total annual maintenance spending levels during Q1 2023 and adjust the Vigor obligation amount using historical costs from 2018 thru 2022 as a baseline.
- AIDEA believes that the combination of the improved revenue forecast and the Q1 2023 spending adjustment will maintain the R&R account balance at manageable levels to meet forecasted planned maintenance expenses.

## Location

Ketchikan, Alaska

## Partners

Land Owner: Ketchikan Gateway Borough & City of Ketchikan  
Lessee: AIDEA