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April 22nd, 2015

MEMORANDUM

To: Mark Gorman – CBS Administrator
From: Garry White, Director
Subject: Alaska & Pacific Packing Lease/Purchase Request

Introduction

G. Pat Glaab, doing business as Alaska & Pacific Packing (APP), requests to lease property at the Gary Paxton Industrial Park (GPIP) with an option to purchase. APP proposes to construct a building to be used as a design and fabricating shop of equipment for the commercial fishing and seafood processing industry. Additionally, industrial freezing equipment will be installed in the building for freezing fish by-product. APP also proposes to construct a floating pier and access ramp in the GPIP's tidelands to work on vessels. Please see the attached original and updated proposals and resume from Mr. Glaab.

The GPIP Board met with APP at their board meetings in May, September, and December of 2014 and January 2015, recommending Assembly approval of a revised APP proposal at their March 2015 meeting, passing the following recommendations:

MOTION: M/S **McConnell/Wagner** moved to approve the lease to Alaska & Pacific Packing as per the terms of the March 11, 2015 memo adding the option to purchase Lot 8 when all benchmarks are met, removing employment credits, clarifying that guaranteed access to the waterfront and tidelands via the access and utility easement is non-exclusive, and that the CBS reserves the right to move any utilities within the easement at CBS expense.

Terms provided in the March 11, 2015 memo:

1. Lease terms for Block 4, Lot 8 – 32,362 SF of raw land shall be:
 - a. At a rate of \$15,300 per year;
 - b. For a term of 10 years with five (5) five-year renewal options;
 - c. Executed when all of the rock is removed from the property; and that
 - d. Within 24 months from the execution of the lease, APP must have constructed a 4,000 square foot building on the lot and have certified payroll for two full-time employees at \$36k per year or the CBS can terminate the lease; and that
 - e. Within 48 months of execution of the lease, APP must have installed industrial freezing equipment or the CBS can terminate the lease.
 - f. Lot 8 square footage will be adjusted to reflect actual usable property with a deduction for the bulk water meter building.
2. Lease terms for a 20,000 SF portion of tidelands directly in front of Lot 2, including use of old mooring dolphins installed when the site was used as a pulp mill, shall be:
 - a. At a rate of \$1,800 per year;
 - b. Concurrent with the lease of Lot 8; and that

- c. Within 48 months from lease execution an access ramp and floating dock must be constructed and located in the tidelands following CBS building permit process or CBS can terminate the lease; and that
 - d. CBS will not warrantee the condition of the current mooring dolphins; and that
 - e. APP will indemnify the CBS for use of the dolphins and waive rights to pursue any claim against the CBS for use of the dolphins.
3. Guaranteed access to the waterfront and tidelands via the access and utility easement located between Lots 2 and 4 shall be based upon;
- a. Payment of an annual \$3,000 user fee; and that
 - b. The term of the access and utility easement agreement shall be concurrent with and incorporated into the Lot 8 lease; and that
 - c. Guaranteed access is non-exclusive, meaning that APP shall not prevent others from crossing the access and utility easement.
4. Other terms:
- a. Lessee has the option to renew the lease for five (5) five-year terms. New terms can be discussed 24 months before the end of the lease. Lessee must provide, in writing, their request to exercise lease extension at least 30 days prior to lease expiration; and that
 - b. If the lease is terminated, all buildings and improvements on the property at the end of the lease term must be removed from the property and/or return to the condition it was received in or the improvements become the property of the CBS; and
 - c. A CPI adjustment will be applied to the lease and user fees on the 61st month after lease execution. CPI adjustment will be based on the average of the Anchorage and Seattle “all items” figure of the “consumer price index for all urban consumers.”

Upon meeting the required benchmarks above, APP may purchase Lot 8 for the 2014 appraised value of \$170,000.

ACTION: Motion PASSED 3/1 on a roll-call vote.

Yeas: Scott Wagner, Charles Horan, Ptarmica McConnell

Nays: Dan Jones

Absent: Grant Miller

**Minutes from the March 2015 meeting are attached in the packet.*

Background

The GPIIP Board of Directors has a strategic plan for the development of the industrial park (see attached). The plan was adopted by the Assembly in 2009. The GPIIP Board has actively worked the plan since its inception. The mission of the GPIIP is the following:

It is the mission of the Gary Paxton Industrial Park board and management, by direction of the Sitka Assembly, to strategically develop the park in a fiscally responsible manner that maximizes its economic benefit to the community through creation of meaningful jobs in conformance with established community plans and policies.

The industrial park has been nearly fully leased for the past two years during the Blue Lake Dam Expansion project. As the expansion project started to wrap up, the GPIIP Board of Directors

received multiple proposals to lease and/or purchase a majority of remaining property at the industrial park.

Property Sale History

The CBS acquired the GPIIP in 1999; in 2000 the CBS Assembly approved an ordinance that established rules and procedures governing leases and property management at the GPIIP. The purpose section of the enabling ordinance states; *“Unlike other property owned by the municipality, the former Alaska Pulp Corporation mill site was acquired not for governmental purposes from the state or federal government, but for economic development and disposal. In general, the property will not be used for public improvements. It will be leased or sold to individuals and corporations to develop business opportunities and provide jobs. For that reason, it is important to enact a procedure for property management and disposal at the site which more closely corresponds to private sector disposals.”*

The GPIIP Board of Directors has made multiple lease and sales recommendations to the CBS Assembly based off the enabling ordinance and the Guiding Principles of its Strategic Plan.

Guiding principles

1. Always preserve public access and marshalling areas to the waterfront as it is the most commercially viable waterfront left in Sitka.
2. Make lease, buy/sell or other land use decisions based on the mission of the Park – to create family wage jobs for Sitkans in a financially responsible manner.
3. Consistent with principles 1 & 2, identify and minimize negative cash flows to the City from the operation of the Park.

Previous Property Sales

- Lot 5 (Bottling Plant)
 - Property sold in 2006 to True Alaska Bottling Company (TAB) per property purchase request for use as a water bottling facility.
 - 3 acre parcel containing a 73,000 building for a sales price of \$722,720
 - Sales price set by outside appraisal firm.
 - \$4.00/SF for property
 - \$2.74/SF for building
 - The CBS placed “reversion clauses” in the purchase agreement which required TAB to complete elements of their purchase proposal by set benchmark dates or the property would revert back to the CBS.
 - TAB failed to meet reversion clauses.
 - The CBS eventually amended their claim on the property Deed of Trust to release its reversionary interest in the property through negotiation with TAB’s legal representation.
- Lots 10 (Pulp Dock/Warehouse) & Lot 21 (Old APC Warehouse)
 - Property sold to SBS per property purchase request for use as a fish processing facility and bunkhouse.

- Pulp Dock/ Warehouse - 187,252 SF parcel consisting of a ~75,000 SF warehouse, 600' long dock, and 60,000 SF of tidelands. Old APC Warehouse – 18,315 SF containing a dilapidated building that was demolished.
 - Sale price of \$1,000,000 with purchase price to be refunded with certified repair costs of \$3,000,000 expended to fix failing dock infrastructure.
- Pulp dock deemed unsafe by outside engineering firm. Engineering estimates to repair ranged from \$3 million for short-term fix to \$20 million for permanent repair. CBS did not have ability to fund repair, therefore the CBS chose to divest itself from the problem property.
- Lot 22 (Stores & Maintenance Building)
 - Property sold to SBS via RFP process for use as a fisherman support center and value added/secondary processing.
 - The City received two responses to RFP.
 - 49,846 SF parcel containing a 38,347 SF building for a sales price of \$245,000.
 - Sales price set by SBS offer in response to RFP.
 - Next highest bidder's offer was \$15,000.
 - Property was determined by CBS Building Official to not be in a leasable condition at time of sale due to lack of fire suppression equipment, leaking roof, and flooding in the building.
- Lot 16a (Carpenter Shop and Tire Shop)
 - Property sold to SBS via RFP process for use as a fisherman/fleet storage and construction of bunkhouse.
 - SBS was the only responder to the RFP
 - 66,491 SF parcel including the ~ 5,000 Carpenter Shop (the area of the tire shop was not determined as the shop was not in useable condition). Sales price of \$235,000.
 - Sales price set by SBS offer in response to RFP.
 - Property was not in leasable condition at the time of sale due to the lack of fire suppression equipment, no working utilities, and leaking roof.
- Lots 3, 6 & 7 (raw land)
 - Pending property sale to I Water LLC based on a property purchase request from I Water LLC for the construction and use of parcels as a water bottling facility.
 - 107,810 SF of total raw land for a pending sales price of \$567,000.
 - I Water entered into a 30 month lease of the property with the CBS with option to purchase property when certain elements of their purchase proposal are completed.
- Lots 11 (former GPIIP WWTP bldg.), 12a, & 13(raw land)
 - Property sold to SBS via property purchase request for use for seafood value-added reprocessing.
 - 164,024 SF of raw land and 2,760 SF building for a sales price of \$962,000
 - Property was sold at appraised value with no performance requirements.

- Lot 17 (raw land)
 - Property approved to be sold to Monarch Tannery via purchase request for use as a commercial tannery. (sale transaction pending)
 - 16,997 SF of raw land for a sales price of \$110,000
 - Property was sold at appraised value with no performance requirements.

Proposed Lease/Purchase Agreement Terms

The following proposed terms have been discussed with APP and have been recommended by the GPIIP Board for approval by the Assembly.

**In addition to the terms below, all standard lease and purchase agreement terms will apply.*

Each parcel will be discussed in relation to the lease/purchase proposal by APP. Please attached APP proposal for further details on use of the property.

Lot 8

Lot 8 is a 32,362 SF parcel of raw land located upland of the lot 4 waterfront parcel. (Actual square footage of lot will be determined by professional lot survey before lease/purchase documents are signed.)

- APP proposes to construct a 4,000 SF building on the lot to be used for a design and fabrication shop, freeze fish by-product, and engineering services.

Recommended Terms:

- The term of the lease will be for 10 years, with 5- 5 year renewal option. Lease to be executed when all of the rock is removed from the property (currently estimated Nov. 1, 2015).
 - 24 months from the execution of the lease, APP must have constructed a 4,000 SF building on the lot and have certified job payroll for 2 FTE at \$36k per year or the CBS can terminate the lease.
 - 48 months of the execution of the lease, APP must have installed industrial freezing equipment or the CBS can terminate the lease.
- Lease rate will be based on 9% of appraised value of property.
- Lot can be purchased by APP at 2014 appraised price of \$170,000 when performance benchmarks are met.

2014 Appraised Value (Full GPIIP appraisal available at www.sawmillcove.com)

- Lot 8 (32,362 SF) \$170,000

Lot 8 raw land \$170,000 @9% =\$15,300 per year

*Note: 2014 Appraised value assumes utility easements and meter shack located on lot 8 are not included in value.

Tideland

The proposal requests a 20,000 SF portion of the tideland directly in front of Lot2, including use of old dolphins installed when the site was used as a pulp mill.

- The purposed use of the tidelands is to construct an access ramp and floating dock to service floating processor and other vessels.

Recommended Terms:

- The term of lease shall be concurrent with Lot 8.
 - 48 month from lease execution an access ramp and floating dock must be constructed and located in the tidelands following CBS building permit process or the CBS can terminate lease
- CBS will not warrantee condition of current mooring dolphins. APP will indemnify the CBS for use of dolphins and waive rights to pursue any claim against the City for use of the dolphins.
- Lease rates will be based on 4.5% of appraised value of tidelands.

2014 Appraised Value (Full GPIIP appraisal available at www.sawmillcove.com)

- Tidelands adjacent to uplands are valued at \$2.00/SF

20,000 SF @ \$2.00/SF = \$40,000 @ 4.5% = \$1,800 annual lease rate

Access and Utility Easement

- APP requests have guaranteed access to the waterfront and tidelands via the access and utility easement located between lots 2 & 4.

Recommended Terms:

- The term of the access and utility easement agreement shall be concurrent and incorporated with the Lot 8 lease.
- Guaranteed access is non-exclusive, meaning that APP shall not prevent others from crossing the access and utility easement
- The CBS reserves the right to move any utilities within the easement at CBS expense.
 - A \$3,000 annual user fee is charged for guaranteed access.

APP Total lease payments

CBS Market Rate (based on 9% return on property value)

Lot 8 raw land	\$15,300 per year
Access and Utility Easement Fee	\$3,000 per year
20,000 SF of tidelands	\$1,800 per year

Total annual lease \$20,100 per year

Additional Considerations

- The CBS recently received \$7.5mm for the construction of a multi-purpose dock from the State of Alaska. The CBS is currently working with an engineering firm to construct a multi-purpose dock, which will increase the marketability of the GPIIP.
- Access to CBS utilities and utility easements must be preserved as a majority of utilities were established with federal grant funds..
- A majority of the raw land at the GPIIP has had minimal use since the CBS took ownership of the property.
- The GPIIP is one of the last available developable properties in the immediate Sitka area without topographical constraints and with utilities available on site.

Action

- Assembly approval of GPIIP board recommendations.